

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

**Management's Discussion and Analysis and
Financial Statements
Together with Independent Auditors' Report
June 30, 2006 and 2005**

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

TABLE OF CONTENTS

	Page
Management's Discussion and Analysis	1
Independent Auditors' Report	9
Financial Statements:	
Balance Sheets as of June 30, 2006 and 2005	10
Statements of Revenues, Expenses and Changes in Net Deficit for the Years Ended June 30, 2006 and 2005	12
Statements of Cash Flows for the Years Ended June 30, 2006 and 2005	13
Notes to Financial Statements	15

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis June 30, 2006 and 2005

As management of Maryland Economic Development Corporation (MEDCO), we offer readers of the financial statements this narrative overview and analysis of MEDCO's financial activities for the fiscal years ended June 30, 2006 and 2005. Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of financial activity, and (c) identify changes in MEDCO's financial position (its ability to address the next and subsequent year challenges). We encourage readers to consider the information presented here in conjunction with MEDCO's financial statements and accompanying notes.

General

MEDCO is a body corporate and politic and a public instrumentality of the State of Maryland that was created in 1984 by an act of the Maryland General Assembly. MEDCO's purpose is to attract new business and to encourage expansion of existing businesses in Maryland through the development, expansion, and/or modernization of facilities. In fulfilling this purpose, MEDCO owns and leases certain properties and makes loans to organizations that require financing to acquire or develop properties. MEDCO also serves as a consultant or development manager on certain projects.

MEDCO issues limited-obligation revenue bonds and notes to provide capital financing for projects. Most of the bonds and notes are conduit debt obligations issued for specific third parties in MEDCO's name. In these cases, the related assets, liabilities, revenues, expenses, and cash flows are included in MEDCO's financial statements; however, MEDCO has no obligation for the debt beyond the resources provided under the related lease or loan with the party on whose behalf the debt was issued. The bonds and notes not issued for specific third parties primarily finance operating facilities of MEDCO. These bonds and notes are payable solely from the revenues of the respective facilities as defined in the related bond indentures. MEDCO is the owner of these operating facilities and has retained on-site professional managers for each facility.

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to MEDCO's basic financial statements. MEDCO is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and accrual basis of accounting. Enterprise fund statements offer short- and long-term financial information about the activities and operations of MEDCO. MEDCO's basic financial statements consist of two parts: the financial statements and notes to the financial statements.

The Financial Statements

MEDCO's financial statements are designed to provide readers with a broad overview of its finances, in a manner similar to a private-sector business.

The balance sheets present information on all of MEDCO's assets and liabilities, with the difference between the two reported as net assets (deficit).

The statements of revenues, expenses and changes in net assets (deficit) present the operating activities of MEDCO and sources of nonoperating revenues and expenses.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis June 30, 2006 and 2005

The Financial Statements – cont'd.

The statements of cash flows present summarized sources and uses of funds for MEDCO's activities. Cash flows from operating activities generally represent receipts and disbursements associated with property and equipment rentals, operating facilities and energy services as well as day-to-day management. Cash flows from noncapital financing activities generally reflect the incurrence of debt obligations to finance loans and financing leases and the related principal and interest payments. Cash flows from capital and related financing activities generally include the incurrence of debt obligations to finance capital assets, the subsequent investment of the debt proceeds in property and equipment, and related principal and interest payments. Cash flows from investing activities generally include loan originations and related collections of principal and interest payments and purchases and sales of investments and collections of related income.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15-41 of this report.

Financial Analysis of MEDCO

The following table summarizes MEDCO's financial position as of June 30, 2006, 2005 and 2004:

	2006	2005	2004
Current assets	\$ 97,060,722	\$ 92,086,473	\$ 83,048,116
Capital assets	606,038,389	596,045,525	767,870,929
Other assets	1,190,144,452	1,015,387,380	838,693,625
Total Assets	1,893,243,563	1,703,519,378	1,689,614,674
Current liabilities	136,948,757	149,242,505	150,070,387
Long-term debt	1,823,701,018	1,600,248,396	1,555,794,688
Other noncurrent liabilities	6,302,398	6,320,594	6,940,441
Total Liabilities	1,966,952,173	1,755,811,495	1,712,805,516
Invested in capital assets, net of related debt	(1,228,281,557)	(1,043,407,220)	(915,785,424)
Restricted under loan agreements	65,386,879	93,420,880	146,784,004
Unrestricted net assets (deficit)	1,089,186,068	897,694,223	745,808,574
Total Deficit	\$ (73,708,610)	\$ (52,292,117)	\$ (23,192,846)

Significant factors in the changes in MEDCO's financial position as of June 30, 2006 include the following:

- Current assets increased as a result of increases in cash from the sale of assets (\$971,000), increases in cash and receivables from improved operations at Rocky Gap Golf Course and Hotel/Meeting Center (Rocky Gap) (\$828,000), and increases in amounts due currently on loans and financing leases (\$2,306,000).

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis June 30, 2006 and 2005

Financial Analysis of MEDCO – cont'd.

- Capital assets increased primarily as a result of the acquisition of two student housing projects at the University of Maryland, College Park (\$74,200,000), offset by the sale of Compass Pointe golf course (\$18,200,000), the transfer of construction costs for piers A and B at Baltimore Washington International Airport (BWI) and the Laboratory for Telecommunications Sciences project (\$23,400,000) to other assets as direct financing leases and current year depreciation (\$25,900,000).
- Other assets increased primarily as a result of the issuance of two large conduit debt issuances for utility projects (\$232,000,000).
- Current liabilities decreased primarily as a result of the payment of construction and retainage liabilities for the BWI project.
- Long-term debt increased from issuance of additional bonds for acquisition of the two student housing projects at the University of Maryland, College Park (\$92,400,000) and two large conduit debt issuances for utility projects (\$232,000,000).

Significant factors in the changes in MEDCO's financial position as of June 30, 2005 include the following:

- Current assets increased as a result of increases in cash and receivables on new projects (\$3,800,000), proceeds from the sale of assets (\$3,400,000) and increases in cash and receivables from improved operations at Chesapeake Bay Conference Center and Rocky Gap (\$3,200,000).
- Capital assets declined and other assets increased as a result of the transfer of construction costs for piers A and B at Baltimore Washington International Airport (BWI) to other assets as a direct financing lease.
- Current liabilities decreased due to lower construction and retainage liabilities for BWI as construction of the first phase neared completion.

MEDCO's net assets (deficit) at June 30, 2006, 2005 and 2004 (after considering the effects of eliminations and adjustments in combination) are detailed by source as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating facilities	\$ (88,016,301)	\$ (67,916,394)	\$ (47,287,559)
Other operations	<u>14,307,691</u>	<u>15,624,277</u>	<u>24,094,713</u>
Net deficit	<u>\$ (73,708,610)</u>	<u>\$ (52,292,117)</u>	<u>\$ (23,192,846)</u>

As indicated in the table above, MEDCO's deficit is attributable to the accumulated losses of its operating facilities. As discussed in greater detail below, substantially all of MEDCO's operating losses for 2006, 2005 and 2004 related to its operating facilities.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis June 30, 2006 and 2005

Financial Analysis of MEDCO – cont'd.

The following table summarizes MEDCO's revenues and expenses and changes in net assets for the years ended June 30, 2006, 2005 and 2004:

	2006	2005	2004
Operating revenues:			
Operating facilities	\$ 101,487,874	92,386,444	70,267,510
Other property and equipment rentals	9,624,510	11,482,623	13,136,160
Consulting and management fees	1,247,274	1,370,464	1,310,083
Total operating revenues	112,359,658	105,239,531	84,713,753
Operating expenses:			
Operating facilities	69,259,638	60,314,297	52,428,087
Rent	963,868	1,389,604	2,288,103
Compensation and benefits	985,812	843,590	610,590
Administrative and general	920,967	407,733	575,627
Depreciation and amortization	25,887,405	25,847,393	19,469,642
Total operating expenses	98,017,690	88,802,617	75,372,049
Operating income	14,341,968	16,436,914	9,341,704
Nonoperating revenues and expenses:			
Interest income	42,012,659	24,861,115	18,587,185
Interest expense	(81,238,237)	(63,393,502)	(50,590,065)
Unrealized (loss) gain on investment securities	(169,138)	1,509,500	—
Gain (loss) on sale of assets	3,517,561	(8,244,678)	—
Loss on early extinguishment of debt	(135,016)	(525,269)	—
Operating grants from government agencies	253,710	256,649	681,436
Net nonoperating expenses	(35,758,461)	(45,536,185)	(31,321,444)
Loss before contributions	(21,416,493)	(29,099,271)	(21,979,740)
Capital contributions – project grants from government agencies	—	—	1,750,000
Increase in net deficit	(21,416,493)	(29,099,271)	(20,229,740)
Net deficit, beginning of year	(52,292,117)	(23,192,846)	(2,963,106)
Net deficit, end of year	\$ (73,708,610)	\$ (52,292,117)	\$ (23,192,846)

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis June 30, 2006 and 2005

Financial Analysis of MEDCO – cont'd.

The loss before capital contributions for the years ended June 30, 2006, 2005 and 2004 (after considering the effects of eliminations and adjustments in combination) is detailed by source as follows:

	2006	2005	2004
Operating facilities	\$ (18,899,739)	\$ (21,018,595)	\$ (21,789,743)
Other operations	(2,516,754)	(8,080,676)	(189,997)
Loss before Contributions	<u>\$ (21,416,493)</u>	<u>\$ (29,099,271)</u>	<u>\$ (21,979,740)</u>

Losses from operating facilities decreased approximately \$2,119,000 for the year ended June 30, 2006 in comparison to the year ended June 30, 2005. The decrease in losses from these facilities in 2006 was due to a \$3,422,000 gain on the sale of Compass Pointe Golf Course on July 1, 2005 and elimination of its 2005 operating loss of \$2,735,000. Offsetting this improvement were increased operating losses at Chesapeake Bay Conference Center (CBCC) of \$2,166,000 due primarily to an unrealized loss of \$169,000 on investment securities in 2006 versus an unrealized gain of \$1,510,000 in 2005, increased losses at UMCP Student Housing of \$1,324,000 due to the acquisition of two additional housing projects in 2006 and the associated interest and depreciation expenses and increased losses at Bowie State University Student Housing (Bowie) of \$1,446,000 from decreased rental revenues and increased operating costs. Due to the poor performance at Bowie, the on-site management company was replaced on May 1, 2006.

Losses from other operations decreased \$5,564,000 in 2006 primarily due to losses of \$6,747,000 incurred on the disposition of two projects in 2005.

Losses from operating facilities decreased approximately \$771,000 for the year ended June 30, 2005 in comparison to the year ended June 30, 2004. The decrease in losses from these facilities in 2005 was due primarily to reduced losses at CBCC and Rocky Gap. The decrease in losses at CBCC (\$6,003,000) was due primarily to higher occupancy and a higher average room rate during the project's second full year of operations, improved food and beverage profitability related to the increase in occupancy and an unrealized gain on long-term securities. The decrease in losses at Rocky Gap (\$1,257,000) was due primarily to an 11% increase in occupancy partially offset by a lower average room rate. These improvements were partially offset by increases in losses of \$3,005,000 incurred on student housing/apartment projects at Bowie State University, the University of Maryland, at Baltimore (UMAB), Salisbury University and a second phase at the University of Maryland, Baltimore County (UMBC) and the University of Maryland, College Park (UMCP) that commenced operations during the year ended June 30, 2005, a decrease in earnings of \$1,017,000 on the UMCP Energy and Infrastructure Program relating to additional depreciation of capital assets, and increased losses at Compass Pointe Golf Course (\$1,548,000) relating to increased depreciation and higher interest costs.

Other operations incurred a loss of \$8,081,000 in 2005 due primarily to losses of \$6,747,000 incurred on the disposition of two projects.

Additional information relating to the operating results of the operating facilities for the years ended June 30, 2006 and 2005 is provided in note 6 to the financial statements.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis June 30, 2006 and 2005

Financial Analysis of MEDCO – cont'd.

Significant changes in the components of MEDCO's revenues and expenses for the year ended June 30, 2006 in comparison to the year ended June 30, 2005 include:

- Revenues from operating facilities increased approximately \$9,101,000. This increase was due primarily to the acquisition of two additional housing projects for UMCP Student Housing and a full year of operations for projects that opened in 2005 (\$5,579,000 in total), increased revenues from operations of CBCC (\$2,869,000) due to higher occupancy and a higher average room rate and increased revenues from operations of Rocky Gap (\$1,174,000) due to higher occupancy, a higher average room rate and a full year of operations for its expanded meeting space. Revenues from the UMCP Energy and Infrastructure Program also increased \$1,248,000 as the final components of the project became operational and services to the University were expanded. These increases were partially offset by the loss of revenues from the sale of Compass Pointe Golf Course (\$2,012,000).
- Operating expenses of operating facilities (excluding depreciation and amortization) increased approximately \$8,945,000. This increase was also attributable primarily to expenses associated with the acquisition of two additional housing projects for UMCP Student Housing and a full year of operations for projects that opened in 2005 (\$5,529,000 in total) and the operations of CBCC (\$3,163,000) and Rocky Gap (\$750,000). The increase also reflects increased expenses associated with the UMCP Energy and Infrastructure Program of \$1,261,000 due to higher utility expenses. These increases were partially offset by the decrease in expenses from the sale of Compass Pointe Golf Course (\$1,964,000).
- Interest expense increased approximately \$17,845,000. This increase relates primarily to a full year of interest on debt related to projects completed in 2005, primarily BWI (\$10,408,000) and two parking garages in Montgomery County (\$1,444,000), interest on debt related to the facilities that commenced operations during the year or had a full year of operations for the first time in 2005 (\$2,151,000 in total), and interest on new conduit debt issuances.

Significant changes in the components of MEDCO's revenues and expenses for the year ended June 30, 2005 in comparison to the year ended June 30, 2004 include:

- Revenues from operating facilities increased approximately \$22,119,000. This increase was due primarily to increased revenues from operations of CBCC (\$5,402,000) due to higher occupancy and a higher average room rate, increased revenues from operations of Rocky Gap (\$1,845,000) due to higher occupancy and revenues from the facilities that commenced operations during the year and a full year of operations for projects that opened in 2004 (\$13,645,000 in total). Revenues from the UMCP Energy and Infrastructure Program also increased \$545,000 as additional components of the project became operational and services to the University were expanded.
- Operating expenses of operating facilities (excluding depreciation and amortization) increased approximately \$7,886,000. This increase was also attributable primarily to expenses associated with the operations of CBCC (\$596,000) and the facilities that commenced operations during the year or had a full year of operations for the first time in 2005 (\$5,698,000 in total). The increase also reflects increased expenses associated with the UMCP Energy and Infrastructure Program of \$554,000 due to higher utility expenses.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis June 30, 2006 and 2005

Financial Analysis of MEDCO – cont'd.

- Depreciation expense increased \$6,378,000 primarily as a result of projects that commenced operations in 2005 and had a full year of operations for projects that opened in 2004.
- Interest expense increased approximately \$12,803,000. This increase relates primarily to a full or partial year of interest on debt related to projects completed in 2004 and 2005 (primarily BWI, the Maryland Department of Transportation headquarters building and two parking garages in Montgomery County) (\$2,636,000) and interest on debt related to the facilities that commenced operations during the year or had a full year of operations for the first time in 2005 (\$7,334,000) in total.

Capital Asset and Debt Administration

Capital Assets

Costs incurred to acquire, develop and/or improve capital assets were approximately \$80,225,000 in 2006. Two student housing projects were acquired from Collegiate Housing Foundation and development was completed on the expansion of BWI Airport for the Maryland Aviation Administration and the Laboratory for Telecommunications Sciences. There was no significant construction in progress as of June 30, 2006.

Costs incurred to acquire, develop and/or improve capital assets were approximately \$127,226,000 in 2005. Development was completed on several facilities that opened during the year, including five student housing facilities for Bowie State University, Salisbury University and the University of Maryland at Baltimore and additional phases of facilities at UMBC and UMCP, and components of the UMCP Energy and Infrastructure Program. The only significant construction at year-end was the expansion of BWI Airport for the Maryland Aviation Administration.

Additional information relating to capital assets is provided in note 5 to the financial statements.

Debt

At June 30, 2006, MEDCO had total bonds and notes payable and capital lease obligations outstanding of \$1,872,446,000, an increase of 14% from June 30, 2005. As discussed above, none of this debt is backed by the full faith and credit of MEDCO.

During 2006, MEDCO issued debt aggregating \$449,766,000, including \$449,671,000 to finance the acquisition, construction or improvement of property and equipment and \$95,000 of capital lease obligations. Aggregate principal payments on bonds and notes payable and capital lease obligations during the year were \$217,529,000.

At June 30, 2005, MEDCO had total bonds and notes payable and capital lease obligations outstanding of \$1,642,514,000, an increase of 2.6% from June 30, 2004. As discussed above, none of this debt is backed by the full faith and credit of MEDCO.

During 2005, MEDCO issued debt aggregating \$158,004,000, including \$157,260,000 to finance the acquisition, construction or improvement of property and equipment and \$744,000 of capital lease obligations. Aggregate principal payments on bonds and notes payable and capital lease obligations during the year were \$108,887,546.

Additional information relating to debt and capital lease obligations is provided in note 7 to the financial statements.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis June 30, 2006 and 2005

Contacting Management of MEDCO

This report is designed to provide Maryland citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the finances of MEDCO. If you have questions about this report or need additional information, contact Maryland Economic Development Corporation, 100 North Charles Street, Suite 630, Baltimore, MD 21201.

Independent Auditors' Report

To the Board of Directors
Maryland Economic Development Corporation:

We have audited the accompanying balance sheet of Maryland Economic Development Corporation (MEDCO) as of June 30, 2006 and the related statements of revenues, expenses, and changes in net deficit, and cash flows for the year then ended. These financial statements are the responsibility of MEDCO's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of MEDCO as of June 30, 2005 were audited by other auditors whose report dated January 27, 2006 included an explanatory paragraph discussing the adoption by MEDCO of Governmental Accounting Standards Board Statement No. 40, *Deposit and Independent Risk Disclosure*, an amendment of GASB No. 3, as of July 1, 2004, and expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MEDCO as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Stout, Causey & Horning, P.A.

October 27, 2006

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Balance Sheets

<i>As of June 30,</i>	<i>2006</i>	<i>2005</i>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 18,602,909	\$ 14,719,155
Restricted cash, tenant security deposits	2,755,499	1,334,717
Fund for replacement of and additions to furnishings and equipment	1,001,155	1,072,049
Deposits with bond trustees — restricted	26,779,599	26,412,955
Deposits held in escrow	-	1,707,520
Short-term investments	2,027,350	1,962,168
Loans receivable	20,423,810	19,657,041
Receivables under financing leases	10,050,138	8,510,792
Rent and other receivables	8,165,762	6,691,542
Related party receivable	-	887,730
Interest receivable	5,115,769	7,281,431
Inventory	620,628	587,195
Prepaid and other current assets	1,518,103	1,262,178
Total Current Assets	97,060,722	92,086,473
Noncurrent Assets:		
Restricted investments	499,615	499,615
Deposits with bond trustees — restricted	79,267,104	106,543,760
Loans receivable	752,314,071	588,749,648
Receivables under financing leases	338,976,000	302,985,056
Capital assets:		
Buildings and improvements	645,550,405	590,456,900
Furnishings and equipment	54,986,783	52,384,714
	700,537,188	642,841,614
Less accumulated depreciation and amortization	102,603,888	78,261,474
	597,933,300	564,580,140
Construction in progress	2,847,056	26,207,352
Land	5,258,033	5,258,033
Net Capital Assets	606,038,389	596,045,525
Deferred financing costs, net of accumulated amortization of \$4,469,056 in 2006 and \$3,801,507 in 2005	19,087,662	16,609,301
Total Noncurrent Assets	1,796,182,841	1,611,432,905
Total Assets	\$ 1,893,243,563	\$ 1,703,519,378

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Balance Sheets

<i>As of June 30,</i>	<i>2006</i>	<i>2005</i>
Liabilities and Net Deficit		
Current Liabilities:		
Cash overdraft	\$ 987,847	\$ -
Accounts payable and accrued expenses	26,267,532	57,854,086
Interest payable	31,310,695	26,033,471
Bonds and notes payable	48,716,497	41,949,694
Capital lease obligations	28,782	316,252
Advances from Calvert County	934,131	582,019
Advance deposits	2,146,322	1,790,219
Related party payable	467,541	671,436
Sales tax payable	967,962	841,210
Accrued ground rent	14,791,408	8,930,559
Tenant security deposits payable	1,801,585	1,340,270
Deferred management and service fees payable	7,500,330	8,169,041
Deferred revenue	1,028,125	764,248
Total Current Liabilities	136,948,757	149,242,505
Noncurrent Liabilities:		
Bonds and notes payable	1,823,617,701	1,599,472,085
Capital lease obligations	83,317	776,311
Deferred revenue	1,202,398	1,658,094
Deferred ground rent	5,100,000	4,662,500
Total Noncurrent Liabilities	1,830,003,416	1,606,568,990
Total Liabilities	1,966,952,173	1,755,811,495
Commitments and Contingencies (Note 8)		
Net Deficit:		
Invested in capital assets, net of related debt	(1,228,281,557)	(1,043,407,220)
Restricted under trust indentures	65,386,879	93,420,880
Unrestricted net assets	1,089,186,068	897,694,223
Total Net Deficit	(73,708,610)	(52,292,117)
Total Liabilities and Net Deficit	\$ 1,893,243,563	\$ 1,703,519,378

The accompanying notes are an integral part of these financial statements.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Revenues, Expenses, and Changes in Net Deficit

<i>For the Years Ended June 30,</i>	<i>2006</i>	<i>2005</i>
Operating Revenues:		
Operating facilities	\$ 101,487,874	\$ 92,386,444
Other property and equipment rentals	9,624,510	11,482,623
Consulting and management fees	1,247,274	1,370,464
Total Operating Revenues	112,359,658	105,239,531
Operating Expenses:		
Operating facilities	69,259,638	60,314,297
Rent	963,868	1,389,604
Compensation and benefits	985,812	843,590
Administrative and general	920,967	407,733
Depreciation and amortization	25,887,405	25,847,393
Total Operating Expenses	98,017,690	88,802,617
Operating Income	14,341,968	16,436,914
Nonoperating Revenues and Expenses:		
Interest income	42,012,659	24,861,115
Interest expense	(81,238,237)	(63,393,502)
Unrealized (loss) gain on investment securities	(169,138)	1,509,500
Gain (loss) on sale of assets	3,517,561	(8,244,678)
Loss on early extinguishment of debt	(135,016)	(525,269)
Operating grants from government agencies	253,710	256,649
Net Nonoperating Expenses	(35,758,461)	(45,536,185)
Increase in Net Deficit	(21,416,493)	(29,099,271)
Net Deficit, beginning of year	(52,292,117)	(23,192,846)
Net Deficit, end of year	\$ (73,708,610)	\$ (52,292,117)

The accompanying notes are an integral part of these financial statements.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Cash Flows

<i>For the Years Ended June 30,</i>	<i>2006</i>	<i>2005</i>
Cash Flows from Operating Activities:		
Cash received from property and equipment rentals	\$ 8,161,397	\$ 13,926,649
Cash received from consulting and management fees	2,986,202	1,544,153
Cash received from guests	63,131,009	49,733,384
Cash received from fees, memberships and sales	752,099	3,140,791
Cash received from licensees	1,115,482	1,337,728
Cash received from customer charges	12,071,035	14,769,208
Cash received from tenants	21,580,714	25,537,637
Cash paid for operating expenses	(10,183,088)	(25,019,030)
Cash paid for expenses of operating facilities	(59,223,419)	(53,564,321)
Net Cash Provided by Operating Activities	40,391,431	31,406,199
Cash Flows from Noncapital Financing Activities:		
Operating grants from Montgomery County, Maryland and Maryland Technology Development Corporation	253,710	256,649
Proceeds from issuance of note payable	-	450,000
Proceeds from (repayment of) cash overdraft	987,847	(334,546)
Advances from Calvert County, Maryland	352,112	363,607
Advances from Anne Arundel County, Maryland	-	1,123,900
Principal payments on bonds and notes payable	(450,000)	(925,000)
Interest payments on bonds and notes payable	(960,308)	(829,133)
Net Cash Provided by Noncapital Financing Activities	183,361	105,477
Cash Flows from Capital and Related Financing Activities:		
Construction, development and equipment expenditures	(11,935,542)	(133,366,021)
Proceeds from sale of capital assets	17,403,169	17,435,023
Payment to Anne Arundel County	(17,600,000)	-
Proceeds from bonds and notes payable	449,596,731	120,906,326
Net funding of restricted cash	70,894	(1,072,049)
Deferred financing costs	(4,980,020)	(39,500)
Interest payments on bonds and notes payable	(74,866,618)	(55,381,596)
Principal payments on capital lease obligations	(82,172)	(291,831)
Principal payments on bonds and notes payable	(306,170,549)	(66,516,212)
Net Cash Provided by (Used in) Capital and Related Financing Activities	51,435,893	(118,325,860)
Cash Flows from Investing Activities:		
Principal payments on direct financing leases	9,582,008	2,349,413
Loan originations	(298,192,247)	(120,563,579)
Principal payments on loans receivable	119,397,879	31,789,901
Net sales of deposits with bond trustees	38,649,829	157,333,284
Increase in deposits held in escrow	-	(1,707,520)
Net purchases of investments	(65,182)	(1,098,514)
Interest received	44,182,683	23,030,293
Purchase of acquired projects	(1,681,901)	-
Net Cash (Used in) Provided by Investing Activities	(88,126,931)	91,133,278
Net Increase in Cash and Cash Equivalents	3,883,754	4,319,094
Cash and Cash Equivalents, beginning of year	14,719,155	10,400,061
Cash and Cash Equivalents, end of year	\$ 18,602,909	\$ 14,719,155

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Statements of Cash Flows - cont'd.

<i>For the Years Ended June 30,</i>	<i>2006</i>	<i>2005</i>
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 14,341,968	\$ 16,436,914
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	25,887,405	25,847,393
Provision for doubtful accounts	788,559	458,281
Changes in operating assets and liabilities:		
Restricted cash, tenant security deposits	(327,972)	(474,149)
Accounts receivable	(3,248,486)	1,765,748
Rent and other receivables	(1,463,113)	2,444,026
Related party receivable	961,851	(904,182)
Inventory	(33,433)	(94,797)
Prepaid expenses and other current assets	80,953	(375,754)
Accounts payable and other accrued expenses	(2,221,211)	(16,013,128)
Advance deposits	356,103	42,279
Related party payable	1,280,996	(644,460)
Sales tax payable	126,752	65,459
Accrued ground rent	3,662,065	2,115,567
Tenant security deposits payable	(244,709)	367,279
Deferred management and service fees payable	281,250	256,250
Deferred revenue	162,453	113,473
Net cash provided by operating activities	\$ 40,391,431	\$ 31,406,199
Schedule of noncash capital and related financing activities:		
Investments in financing leases for buildings and improvements	\$ -	\$ 249,545,134
Capital assets purchased through capital leases	95,537	744,171
Bond payable issued to construction contractor	-	12,000,000
Obligation to Anne Arundel County related to defeasance of bonds payable to Anne Arundel County	-	17,600,000
Amortization of deferred financing costs	663,883	1,158,845
Amortization of issue premium on bonds	(1,425,528)	(383,505)
Amortization of issue discount on bonds	349,205	206,132
Total Noncash capital and related financing activities	\$ (316,903)	\$ 280,870,777

Schedule of noncash noncapital and related financing activities:

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Maryland Economic Development Corporation (MEDCO) is a body corporate and politic and a public instrumentality of the State of Maryland that was created in 1984 by an act of the Maryland General Assembly. MEDCO's purpose is to attract new business and encourage expansion of existing businesses in Maryland through the development, expansion, and/or modernization of facilities. In fulfilling this purpose, MEDCO owns and leases certain properties and makes loans to organizations that require financing to acquire or develop properties. MEDCO also serves as a consultant or development manager on certain projects.

MEDCO issues limited-obligation revenue bonds and notes to provide capital financing for projects. Most of the bonds and notes are conduit debt obligations issued for specific third parties in MEDCO's name. In these cases, the related assets, liabilities, revenues, expenses, and cash flows are included in MEDCO's financial statements; however, MEDCO has no obligation for the debt beyond the resources provided under the related lease or loan with the party on whose behalf the debt was issued. The bonds and notes not issued for specific third parties primarily finance operating facilities of MEDCO. These bonds and notes are payable solely from the revenues of the respective facilities as defined in the related bond indentures.

MEDCO is governed by a twelve-member board appointed by the Governor. MEDCO qualifies for tax-exempt status under Section 501(c)(4) of the Internal Revenue Code and Section 10-104 of the Tax-General Article of the Annotated Code of Maryland. Accordingly, no provision for income taxes or income tax benefit is required.

Basis of Presentation

The accompanying financial statements present the financial position, changes in financial position and cash flows of MEDCO. As a special purpose government engaged solely in business-type activities, MEDCO follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and accrual basis of accounting, wherein revenues are recognized when earned and expenses are recognized when incurred. Also, in preparing its financial statements, MEDCO has adopted paragraph 6 of Statement No. 20 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* under which MEDCO has applied only the applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

Cash and Cash Equivalents

Short-term investments with maturities at dates of purchase of three months or less (including restricted assets) are classified as cash equivalents, except that any such investments made using funds on deposit with trustees pursuant to bond indentures are included in deposits with trustees. Cash equivalents at June 30, 2006 and 2005 include short-term U.S. Treasury securities and other highly liquid investments and are carried at cost, which approximates fair value. As of June 30, 2006 and 2005, TBLink #VALUE! and TBLink #VALUE! of cash and cash equivalents were restricted and not available to pay general operating expenses of MEDCO.

Tenant Security Deposits

Tenant security deposits are held in a separate account and represent tenant security deposits restricted under state law.

Deposits with Bond Trustee

Investments of deposits with trustees are carried at fair value, except that nonparticipating investment contracts (i.e., contracts which are not able to realize market-based increases or decreases in value under any circumstance) are carried at cost.

Inventory

Inventory, consisting primarily of food and beverage, is stated at the lower of cost or market. Cost is generally determined by the first-in, first-out (FIFO) method.

Loans Receivable

Loans are stated at their uncollected principal balances, reduced by unearned income and, where necessary, an allowance for credit losses. Loans are classified as nonaccrual when they become past due for ninety days, unless they are adequately secured and in process of collection. A loan remains in nonaccrual status until it becomes current as to both principal and interest and the borrower demonstrates the ability to pay and remain current. When loans financed by conduit debt obligations are on nonaccrual status, MEDCO also discontinues accrual of interest on the related debt.

Provision is made for possible credit losses based on management's review of outstanding loans, including underlying collateral values and the financial strength of borrowers and guarantors, where applicable. Management does not provide for possible losses on loans financed by conduit debt obligations as MEDCO has no obligation to pay the conduit debt obligation if there is a default on the associated loan receivable.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

Receivables under Financing Leases

Leases which transfer substantially all the risks and benefits of ownership to tenants are considered finance leases and the present values of the minimum lease payments and the estimated residual values of the leased properties, if any, are accounted for as receivables.

In general, minimum rent revenues and expenses under operating leases are recognized when due from tenants or when payable by MEDCO, as appropriate. However, minimum rents under leases which provide for scheduled rent increases that are not intended to cover economic factors related to the leased property are averaged over the terms of the leases.

Capital Assets and Related Depreciation and Amortization

Capital assets are stated at cost less accumulated depreciation and amortization. Depreciation generally is computed on the straight-line basis over the estimated useful lives of the assets. Useful lives used are 40 years for buildings and from 3 to 15 years for furnishings and equipment. Leasehold improvements are generally amortized over the lesser of the terms of the related leases or the useful lives of the assets. Maintenance and repairs are expensed as incurred.

Capital assets are evaluated for impairment on an annual basis under GASB Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB No. 42 requires an evaluation of prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. As of June 30, 2006, management does not believe that any of MEDCO's capital assets are impaired.

Acquisition, development, and construction costs of properties under development, including interest on related debt, are capitalized. All costs are classified as construction in progress until the property is ready for its intended use, at which time the accumulated costs are transferred to the appropriate operating property or other accounts.

Deferred Financing Costs

Costs associated with obtaining financing for certain owned and leased facilities are deferred and amortized to interest expense using the straight-line method or the effective interest rate method over the term of the related debt.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

Revenue Recognition

Revenues related to the leasing of apartments and office space are recognized monthly over the terms of the leases. Revenues related to golf membership dues are billed one year in advance and are recognized as income when earned. Revenues related to hotel room rentals, food and beverage sales and spa services are recognized when services are delivered. Revenues related to the delivery of energy to the University of Maryland are recognized upon delivery of services up to a maximum amount per year as defined in the related trust indenture. Revenue billed or received but not earned is shown as deferred revenue in the accompanying balance sheet. All other revenue is recognized when the service has been provided.

Classification of Revenues and Expenses

Revenues and expenses related to the day-to-day activities of MEDCO are reported as operating revenues and expenses. Other revenues and expenses, consisting of interest income and interest expense, gains and losses on investments and sale of assets, gains or losses on early extinguishment of debt and operating grants from government agencies are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets

Net assets are presented as either unrestricted, restricted under trust indentures or invested in capital assets, net of related debt. Net assets invested in capital assets, net of related debt, represent the difference between capital assets and the related debt obligations. Net assets restricted under trust indentures represent remaining net assets of the operating facilities as all surplus funds are restricted as to their use under the terms of the respective trust indentures. Unrestricted net assets represent the net assets of MEDCO, exclusive of the operating facilities, available for future operations, including outstanding encumbrances at year-end.

Reclassification

Certain amounts have been reclassified from the prior year to conform with the current year presentation.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

2. DEPOSITS WITH BOND TRUSTEES

Deposits with bond trustees consist primarily of the unexpended proceeds of certain revenue bonds payable. Deposits with bond trustees include the following reserve funds and restricted accounts as of June 30,:

	<u>2006</u>	<u>2005</u>
Current assets:		
Working capital and operating expense funds	\$ 3,315,200	\$ 2,673,589
Revenue funds	12,953,939	8,314,897
Interest accounts	4,906,218	7,504,373
Principal accounts	4,882,663	4,726,277
Personal facility charge accounts	242,609	2,980,680
Other	478,970	213,139
	<u>26,779,599</u>	<u>26,412,955</u>
Noncurrent assets:		
Debt service reserve funds	42,735,125	39,755,527
Dedicated reserve funds	5,113,709	3,709,376
Surplus funds	3,976,496	3,253,045
Renewal and replacement funds	3,357,424	1,103,360
Contingency and casualty funds	276,445	859,427
Construction funds	21,959,807	57,691,506
Operating reserve funds	1,267,316	-
Other	580,782	171,519
	<u>79,267,104</u>	<u>106,543,760</u>
	<u>\$ 106,046,703</u>	<u>\$ 132,956,715</u>

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

2. DEPOSITS WITH BOND TRUSTEES – cont'd.

Investments of deposits with trustees are carried at fair value, except for nonparticipating investment contracts (i.e. contracts which are not able to realize market-based increases or decreases in value under any circumstances) which are carried at cost. Investments of deposits with trustees are summarized as follows at June 30,:

	<u>2006</u>	<u>2005</u>
Cash	\$ 373,028	\$ 2,052,768
Nonparticipating investment contracts:		
Purchase and resale agreements:		
Bearing interest at rates from 5.00% to 5.80% and maturing at dates through June 1, 2034	6,466,825	6,466,825
Guaranteed investment contracts:		
Bearing interest at rates from 4.11% to 6.36% and maturing at dates through June 1, 2035	21,030,109	15,856,219
Mortgage-backed and other securities:		
U.S. Agency for International Development bond bearing interest at 5.50% and maturing on September 18, 2023	-	14,009,500
Mortgage-backed securities bearing interest at 5.40% and maturing through July 1, 2005	-	2,438,943
U.S. Treasury Bill maturing on July 21, 2005	-	5,325,466
U.S. Treasury Note bearing interest at 3.38% and maturing on October 15, 2009	13,840,362	-
Federal Home Loan Bank bonds bearing interest at 2.50% and maturing on November 15, 2005	-	687,413
Mutual funds:		
U.S. Government money market funds	64,336,379	86,119,581
	<u>\$ 106,046,703</u>	<u>\$ 132,956,715</u>

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

2. DEPOSITS WITH BOND TRUSTEES – cont'd.

The deposits with bond trustees are subject to certain risks including the following:

Interest Rate Risk – MEDCO does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses as a result of rising interest rates.

Credit Risk – Trust indentures generally limit MEDCO's investments to government obligations; obligations of federal agencies that are backed by the full faith and credit of the United States of America; certificates of deposit issued by and time deposits with commercial banks, trust companies, or savings and loan associations which have the highest short-term rating category of at least two securities rating agencies; repurchase agreements for government obligations; obligations issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, having the highest long-term rating category of at least two securities rating agencies; senior debt obligations of the Federal Home Loan Bank System; commercial paper which has the highest short-term rating category of at least two securities rating agencies on the date of purchase; U.S. dollar denominated deposit accounts; money market funds rated in the highest short-term category of at least two securities rating agencies; public sector investment pools so long as MEDCO's deposit does not exceed 5% of the aggregate pool balance at any time; bonds or other obligations of any state of the United States of America, agency, instrumentality or local government unit of any such state which are not callable at the option of the obligor prior to maturity; general obligations of states with a short-term rating in the highest rating category and a long-term rating in one of the two highest categories of at least two securities rating agencies; and investment agreements that maintain one of the two highest rating categories from a securities rating agency. MEDCO's investments were in compliance with these limitations at June 30, 2006 and 2005.

Concentration of Credit Risk - MEDCO does not have a formal investment policy that limits the amount that may be invested in any one issuer of commercial paper. MEDCO held no investments in commercial paper as of June 30, 2006 and 2005.

Custodial Risk – MEDCO is not subject to custodial risk because the investments are not evidenced by securities that exist in physical form and all other deposits are held in MEDCO's name.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

3. LOANS RECEIVABLE

The loans receivable are due in periodic installments (generally monthly or quarterly) and provide for payments of principal and interest on the same terms as the debt issued to finance them (see note 7). Substantially all of the loans have been assigned as security for the related notes or revenue bonds payable.

Future payments on the loans receivable are due as follows at June 30, 2006:

	Total	Principal	Interest
2007	\$ 48,261,240	\$ 20,423,810	\$ 27,837,430
2008	45,076,392	17,852,341	27,224,051
2009	44,683,878	18,076,492	26,607,386
2010	42,534,005	16,517,744	26,016,261
2011	43,221,350	17,834,476	25,386,874
2012 – 2016	218,583,530	101,151,290	117,432,240
2017 – 2021	221,957,103	127,267,294	94,689,809
2022 – 2026	389,566,611	334,533,006	55,033,605
2027 – 2031	88,672,017	76,446,431	12,225,586
2032 – 2036	44,505,282	41,845,000	2,660,282
2037 – 2038	837,486	789,997	47,489
	<u>\$1,187,898,894</u>	<u>\$ 772,737,881</u>	<u>\$ 415,161,013</u>

At June 30, 2006 and June 30, 2005, there were three conduit loans with a combined principal balance of \$32,815,000 on nonaccrual status.

4. RECEIVABLES UNDER FINANCING LEASES

The leasing operations of MEDCO consist primarily of the leasing of office buildings and other facilities. The receivables under financing leases are summarized as follows at June 30,:

	2006	2005
Total minimum rent payments to be received over lease terms	\$ 590,804,333	\$ 532,952,486
Unearned income	(241,778,195)	(221,456,638)
Receivables under financing leases	<u>\$ 349,026,138</u>	<u>\$ 311,495,848</u>

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

4. RECEIVABLES UNDER FINANCING LEASES – cont'd.

The minimum rent payments to be received from tenants under financing leases in effect at June 30, 2006 are as follows:

2007	\$ 29,126,231
2008	28,675,905
2009	30,214,754
2010	30,231,297
2011	30,384,904
2012 – 2016	151,741,875
2017 – 2021	127,232,222
2022 – 2026	100,542,210
2027 – 2031	62,654,935
	<u>\$ 590,804,333</u>

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

5. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2006 and 2005 is summarized as follows:

2006	Beginning balance	Additions	Sales and retirements	Transfers to receivables under financing leases	Ending balance
Buildings and improvements	\$ 590,456,900	\$ 73,307,372	\$ (18,213,867)	\$ -	\$ 645,550,405
Furnishings and equipment	52,384,714	4,444,679	(1,842,610)	-	54,986,783
Construction in progress	26,207,352	2,473,194	-	(25,833,490)	2,847,056
Land	5,258,033	-	-	-	5,258,033
	<u>674,306,999</u>	<u>80,225,245</u>	<u>(20,056,477)</u>	<u>(25,833,490)</u>	<u>708,642,277</u>
Less accumulated depreciation	<u>(78,261,474)</u>	<u>(25,887,406)</u>	<u>1,544,992</u>	<u>-</u>	<u>(102,603,888)</u>
Net capital assets	<u>\$ 596,045,525</u>	<u>\$ 54,337,839</u>	<u>\$ (18,511,485)</u>	<u>\$ (25,833,490)</u>	<u>\$ 606,038,389</u>

2005	Beginning balance	Additions	Sales and retirements	Transfers to receivables under financing leases	Ending balance
Buildings and improvements	\$ 504,562,818	\$ 117,568,249	\$ (31,674,167)	\$ -	\$ 590,456,900
Furnishings and equipment	33,922,414	18,462,300	-	-	52,384,714
Construction in progress	286,069,081	(10,316,595)	-	(249,545,134)	26,207,352
Land	3,925,908	1,512,125	(180,000)	-	5,258,033
	<u>828,480,221</u>	<u>127,226,079</u>	<u>(31,854,167)</u>	<u>(249,545,134)</u>	<u>674,306,999</u>
Less accumulated depreciation	<u>(60,609,292)</u>	<u>(25,475,595)</u>	<u>7,823,413</u>	<u>-</u>	<u>(78,261,474)</u>
Net capital assets	<u>\$ 767,870,929</u>	<u>\$ 101,750,484</u>	<u>\$ (24,030,754)</u>	<u>\$ (249,545,134)</u>	<u>\$ 596,045,525</u>

During 2006, MEDCO sold the improvements of the Compass Pointe Golf Course located in Anne Arundel County, Maryland and realized a gain of approximately \$3,400,000. The net proceeds from the sale after forgiveness of the debt from Anne Arundel County were used to repay advances due to MEDCO.

During 2005, MEDCO disposed of an office building located in Cumberland, Maryland and an office building located in Owings Mills, Maryland and incurred losses of \$6,747,000. The proceeds from the sales were used to repay the long-term debt outstanding for each of the projects.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

6. OPERATING FACILITIES

Operating facilities in operation during 2006 and/or 2005 included the following:

- Bowie State University Student Housing (Bowie), an apartment project located in Prince George's County, Maryland. The project was completed and opened in August 2004.
- Chesapeake Bay Conference Center (CBCC), a hospitality project located in Cambridge, Maryland. The project was completed and opened in August 2002.
- Chesapeake Hills Golf Course (Chesapeake Hills), a golf facility located in Calvert County, Maryland. The project was acquired in February 2002.
- Compass Pointe Golf Course (Compass Pointe), a golf facility located in Anne Arundel County, Maryland. The project was completed and opened in October 2003 and was sold to Anne Arundel County in July 2005.
- Frostburg University Student Housing (Frostburg), an apartment project located in Garrett County, Maryland. The project was completed and opened in August 2003.
- Maryland Technology Development Center (MTDC), an office/laboratory facility designed for use by biotechnology and computer technology companies located in Montgomery County, Maryland. The project was completed and opened in 1999; an expansion of the project was completed in 2002.
- Morgan State University Student Housing (Morgan State), an apartment project located in Baltimore City, Maryland. The project was completed and opened in August 2003.
- Rocky Gap Golf Course and Hotel/Meeting Center (Rocky Gap), a hospitality project located in Allegany County, Maryland. The project was completed and opened in 1998.
- Salisbury University Student Housing (Salisbury), an apartment project located in Wicomico County, Maryland. The project was completed and opened in August 2004.
- University of Maryland, Baltimore Student Housing (UMAB), an apartment project located in Baltimore City, Maryland. The project was completed and opened in August 2004.
- University of Maryland, Baltimore County Student Housing (UMBC), an apartment project located in Baltimore County, Maryland. The first phase of the project was completed and opened in August 2003. The second phase of the project was completed opened in August 2004.
- The University of Maryland, College Park (UMCP) Energy and Utility Infrastructure Program (UMCP Energy), a program under which MEDCO leases land, certain energy conversion facilities and steam, electricity and chilled water delivery systems at the UMCP campus in Prince George's County, Maryland, and provides energy conversion, delivery and related services to the University. The Program began in August 1999.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

6. OPERATING FACILITIES – cont'd.

- University of Maryland, College Park, Student Housing (UMCP Housing), an apartment project located in Prince George's County, Maryland. The project consists of six student residential housing buildings known as University of Maryland, College Park South Campus Commons Phases I and II and seven garden style apartments known as The Courtyards at University of Maryland. MEDCO originally acquired only South Campus Commons Phase II in July 2003 at which time development of the first of three buildings of that phase was substantially completed. It was opened to residents in August 2003. Construction of two additional buildings in the South Campus Commons Phase II project was completed and the buildings were opened to residents in August 2004. On April 6, 2006, the Project acquired the Courtyards at University of Maryland and South Campus Commons Phase I. These facilities along with the South Campus Commons Phase II now comprise the Project.
- University Village at Sheppard Pratt (University Village), an apartment project located in Baltimore County, Maryland. The project was completed and opened in August 2002.

The operating facilities are managed for MEDCO by independent management companies that provide management, administrative and other services pursuant to management agreements. The agreements generally provide for base and incentive fees and reimbursement of certain costs incurred by the managers in connection with the operation of the facilities.

Operating expenses of the operating facilities include fees to MEDCO (eliminated in combination) for the years ended June 30, 2006 and 2005 of \$1,176,148 and \$944,993, respectively. Net nonoperating expenses for the years ended June 30, 2006 and 2005 include interest expense of \$35,048,407 and \$34,410,792, respectively.

The operating facilities are considered segments of MEDCO for financial reporting purposes. Financial statements of each facility in operation in 2006 and 2005 are included on the following pages:

Balance Sheets
June 30, 2006

Assets	MEDCO, exclusive of operating facilities	Operating Facilities																Elimination	Total															
		Bowie	CBC	Chesapeake Hills	Compass Pointe	Frostburg	MTDC	Morgan State	Rocky Gap	Salisbury	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village																			
Current Assets:																																		
Cash and cash equivalents	\$	14,271,609	\$	155,289	\$	75,000	\$	67,601	\$	-	\$	-	\$	124,248	\$	163,915	\$	1,201,662	\$	2,858	\$	63,448	\$	879,796	\$	-	\$	1,051,137	\$	546,346	\$	-	\$	18,602,909
Restricted cash, tenant security deposits		-	-	-	-	-	-	117,573	-	-	-	-	170,542	-	-	513	162,930	313,654	-	-	-	-	-	-	-	-	1,731,540	258,747	-	-	-	2,755,499		
Fund for replacement of and additions to furnishings and equipment		-	-	1,001,155	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,001,155		
Deposits with bond trustees — restricted		1,738,491	50,587	9,167,903	2	-	357,290	705,642	1,096,734	322,556	857,273	263,712	1,035,710	6,793,210	2,430,434	1,960,055	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26,779,599		
Short-term investments		2,027,350	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,027,350		
Loans receivable		19,669,144	-	754,666	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,423,810		
Receivables under financing leases		10,050,138	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,050,138		
Rent and other receivables		5,321,954	127,835	3,941,831	-	-	26,409	57,915	287,580	705,484	26,413	65,276	247,967	3,136,360	125,195	21,367	(5,925,824)	8,165,762	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Related party receivable		-	57,796	-	-	-	-	100,586	188,374	-	-	-	186,336	-	-	185,855	-	(718,947)	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Interest receivable		4,468,682	5,526	225,420	-	-	-	18,606	-	-	84,775	-	9,305	30,966	5,100	64,852	153,134	49,403	-	-	-	-	-	-	-	-	-	-	-	-	-	5,115,769		
Inventory		-	-	419,808	13,890	-	-	-	-	-	186,930	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	620,628		
Prepaid and other current assets		156,451	72,407	87,088	11,199	-	98,590	6,597	82,564	89,908	87,380	66,488	64,454	158,624	765,577	125,048	(354,272)	1,518,103	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total Current Assets		57,703,819	469,440	15,672,871	92,692	-	719,054	1,082,776	1,886,110	2,506,540	1,170,078	652,820	2,546,681	10,153,046	6,442,872	2,960,966	(6,999,043)	97,060,722	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Noncurrent Assets:																																		
Restricted investments		499,615	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	499,615		
Deposits with bond trustees — restricted		14,540,667	1,734,984	14,361,396	394,126	-	1,505,667	759,881	2,956,228	7,572	1,778,511	3,001,691	641,452	18,131,288	16,791,771	2,661,870	-	79,267,104	-	-	-	-	-	-	-	-	-	-	-	-	-	79,267,104		
Loans receivable		751,102,169	-	1,211,902	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	752,314,071		
Receivables under financing leases		339,028,630	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(52,630)		
Capital assets:																																		
Buildings and improvements		145,557,425	15,657,745	132,314,511	986,734	-	14,062,034	9,313,786	29,442,334	35,967,232	11,356,719	27,037,656	24,063,853	63,370,507	112,693,192	24,556,577	(829,900)	645,550,405	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Furnishings and equipment		72,605	3,128,401	15,372,453	297,737	-	1,198,028	518,616	3,877,976	7,249,210	2,167,821	3,938,566	7,097,736	7,035,954	3,031,680	-	-	54,986,783	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Less accumulated depreciation and amortization		145,630,030	18,786,146	147,686,964	1,284,471	-	15,260,062	9,832,402	33,320,310	43,216,442	13,524,540	30,976,222	31,161,589	63,370,507	119,729,146	27,588,257	(829,900)	700,537,188	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
		26,423,751	1,755,341	25,635,346	317,342	-	1,637,207	1,849,103	4,060,306	13,644,730	1,218,822	2,686,724	3,968,752	11,428,919	3,963,971	4,083,415	(69,841)	102,603,888	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Construction in progress		119,206,279	17,030,805	122,051,618	967,129	-	13,622,855	7,983,299	29,260,004	29,571,712	12,305,718	28,289,498	27,192,837	51,941,588	115,765,175	23,504,842	(760,059)	597,933,300	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Land		2,847,056	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,847,056	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
		1,958,033	-	-	3,300,000	-	-	-	-	-	-	-	-	-	-	-	-	5,258,033	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Net Capital Assets		124,011,368	17,030,805	122,051,618	4,267,129	-	13,622,855	7,983,299	29,260,004	29,571,712	12,305,718	28,289,498	27,192,837	51,941,588	115,765,175	23,504,842	(760,059)	606,038,389	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Deferred financing costs, net		4,404,166	413,382	1,902,135	216,059	-	399,656	160,445	884,234	1,038,033	365,153	506,562	1,323,890	2,060,507	3,566,449	1,846,991	-	19,087,662	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total Noncurrent Assets		1,233,586,615	19,179,171	139,527,051	4,877,314	-	15,528,178	8,903,625	33,100,466	30,617,317	14,449,382	31,797,751	29,158,179	72,133,383	136,123,395	28,013,703	(812,689)	1,796,182,841	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total Assets	\$	1,291,290,434	\$	19,648,611	\$	155,199,922	\$	4,970,006	\$	-	\$	16,247,232	\$	9,986,401	\$	34,986,576	\$	33,123,857	\$	15,619,460	\$	32,450,571	\$	31,704,860	\$	82,286,429	\$	142,566,267	\$	30,974,669	\$	(7,811,732)	\$	1,893,243,563
Liabilities and Net Assets (Deficit)																																		
Current Liabilities:																																		
Cash overdraft	\$	-	\$	-	\$	967,497	\$	-	\$	20,350	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	987,847	
Accounts payable and accrued expenses		9,509,332	387,729	3,379,320	106,027	-	227,507	84,884	352,426	940,076	171,619	1,193,303	344,536	7,895,266	2,130,730	465,670	(920,893)	26,267,532	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Interest payable		6,142,300	92,127	9,681,339	141,512	-	418,066	-	1,142,089	9,393,341	63,420	556,727	621,188	1,624,287	538,672	895,627	-	31,310,695	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Bonds and notes payable		33,258,440	235,000	754,666	75,000	-	255,000	190,000	6,522,912	230,000	820,000	435,000	3,450,000	1,465,000	630,479	-	-	48,716,497	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Capital lease obligations		-	-	-	28,782	-	-	-	-	-	-	-	-	-	-	-	-	28,782	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Advances from Calvert County		-	-	-	934,131	-	-	-	-	-	-	-	-	-	-	-	-	934,131	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Advance deposits		-	-	1,736,570	-	-	-	-	-	409,752	-	-	-	-	-	-	-	2,146,322	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Related party payable		1,082,668	-	-	250,633	-	-	-	-	619,131	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Sales tax payable		-	-	387,619	-	-	-	-	-	580,343	-	-	-	-	-	-	-	967,962	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Accrued ground rent		-	-	4,971,699	-	-	-	-	-	3,150,000	160,297	-	-	-	2,657,355	3,852,057	-	14,791,408	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Tenant security deposits payable		-	-	-	-	-	77,353	100,002	176,684	-	295	114,777	-	-	1,078,127	254,347	-	1,801,585	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Deferred management and service fees payable		-	-	9,696,777	-	-	-	-	-	1,575,000	-	-	-	-	-	-	-	7,500,330	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Deferred revenue		-	13,841	-	62,048	-	-	-	-	63,674	-	95,670	-	169,725	158,624	-	464,543	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total Current Liabilities		49,992,740	728,697	31,575,487	1,598,133	-	998,276	842,426	2,129,873	23,190,555	721,301	2,684,807	1,570,449	13,128,177	7,869,884	6,562,723	(6,644,771)	136,948,757	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Noncurrent Liabilities:																																		

Balance Sheets
June 30, 2005

Assets	MEDCO, exclusive of operating facilities	Operating Facilities															Elimination	Total
		Bowie	CBC	Chesapeake Hills	Compass Pointe	Frostburg	MTDC	Morgan State	Rocky Gap	Salisbury	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village			
Current Assets:																		
Cash and cash equivalents	\$ 11,238,191	\$ 283,454	\$ 114,929	\$ 30,133	\$ 196,831	\$ 41,323	\$ 161,758	\$ 105,672	\$ 188,463	\$ 7,187	\$ 133,724	\$ 924,531	\$ -	\$ 1,039,551	\$ 253,408	\$ -	\$ 14,719,155	
Restricted cash, tenant security deposits	-	-	-	-	-	103,847	-	236,713	-	54,809	106,350	229,670	-	382,835	220,493	-	1,334,717	
Fund for replacement of and additions to furnishings and equipment	-	-	1,072,049	-	-	-	-	-	-	-	-	-	-	-	-	-	1,072,049	
Deposits with bond trustees — restricted	4,873,347	505,923	5,392,435	32,002	-	313,882	543,458	1,531,820	495,062	683,531	612,599	2,113,247	7,109,499	301,024	1,905,126	-	26,412,955	
Deposits held in escrow	-	-	-	-	1,707,520	-	-	-	-	-	-	-	-	-	-	-	1,707,520	
Short-term investments	1,962,168	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,962,168	
Loans receivable	19,050,524	-	606,517	-	-	-	-	-	-	-	-	-	-	-	-	-	19,657,041	
Receivables under financing leases	8,510,792	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,510,792	
Rent and other receivables	3,858,841	96,541	3,869,818	-	115,178	61,777	44,336	188,385	802,195	15,992	34,581	269,424	666,680	90,051	29,605	(3,451,862)	6,691,542	
Related party receivable	701,875	158,684	-	-	-	100,586	-	-	-	187,740	50,398	-	-	185,855	-	(497,408)	887,730	
Interest receivable	6,779,504	10,757	189,080	-	-	17,815	-	82,539	-	6,487	38,140	14,018	70,118	24,120	48,853	-	7,281,431	
Inventory	-	-	374,451	17,767	-	-	-	-	194,977	-	-	-	-	-	-	-	587,195	
Prepaid and other current assets	144,024	221,467	106,428	3,111	-	90,404	18,850	79,439	90,920	71,175	61,809	134,524	-	122,094	117,933	-	1,262,178	
Total Current Assets	57,119,266	1,276,826	11,725,707	83,013	2,019,529	729,634	768,402	2,224,568	1,771,617	1,026,921	1,037,601	3,685,414	7,846,297	2,145,530	2,575,418	(3,949,270)	92,086,473	
Noncurrent Assets:																		
Restricted investments	499,615	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	499,615	
Deposits with bond trustees — restricted	44,786,845	3,485,485	14,170,291	400,675	-	1,427,105	704,503	3,000,439	7,321	1,714,490	5,410,147	3,543,088	20,263,073	5,362,603	2,267,695	-	106,543,760	
Loans receivable	593,389,597	-	1,360,051	-	-	-	-	-	-	-	-	-	-	-	-	(6,000,000)	588,749,648	
Receivables under financing leases	302,985,056	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	302,985,056	
Capital assets:																		
Buildings and improvements	145,024,107	15,753,305	132,184,002	564,488	17,909,619	14,062,034	9,004,885	29,442,334	35,967,425	11,352,213	26,802,754	24,063,852	62,685,647	41,913,558	24,556,577	(829,900)	590,456,900	
Furnishings and equipment	62,679	3,134,179	14,925,926	316,450	1,428,183	1,198,028	455,292	3,877,976	7,148,576	2,167,821	3,938,566	7,097,736	-	3,601,622	3,031,680	-	52,384,714	
Less accumulated depreciation and amortization	145,086,786	18,887,484	147,109,928	880,938	19,337,802	15,260,062	9,460,177	33,320,310	43,116,001	13,520,034	30,741,320	31,161,588	62,685,647	45,515,180	27,588,257	(829,900)	642,841,614	
	22,997,174	800,411	18,916,268	280,655	1,172,130	1,067,873	1,577,864	2,668,488	12,650,053	553,942	1,217,567	2,129,659	7,482,457	1,770,619	3,022,135	(45,821)	78,261,474	
Construction in progress	122,089,612	18,087,073	128,193,660	600,283	18,165,672	14,192,189	7,882,313	30,651,822	30,465,948	12,966,092	29,523,753	29,031,929	55,203,190	43,744,561	24,566,122	(784,079)	564,580,140	
Land	26,259,982	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(52,630)	26,207,352	
	1,958,033	-	-	3,300,000	-	-	-	-	-	-	-	-	-	-	-	-	5,258,033	
Net Capital Assets	150,307,627	18,087,073	128,193,660	3,900,283	18,165,672	14,192,189	7,882,313	30,651,822	30,465,948	12,966,092	29,523,753	29,031,929	55,203,190	43,744,561	24,566,122	(836,709)	596,045,525	
Deferred financing costs, net	4,687,732	428,740	1,976,472	226,674	-	414,322	173,908	915,814	1,124,772	378,233	525,152	812,379	2,219,008	810,697	1,915,398	-	16,609,301	
Total Noncurrent Assets	1,096,656,472	22,001,298	145,700,474	4,527,632	18,165,672	16,033,616	8,760,724	34,568,075	31,598,041	15,058,815	35,459,052	33,387,396	77,685,271	49,917,861	28,749,215	(6,836,709)	1,611,432,905	
Total Assets	\$ 1,153,775,738	\$ 23,278,124	\$ 157,426,181	\$ 4,610,645	\$ 20,185,201	\$ 16,763,250	\$ 9,529,126	\$ 36,792,643	\$ 33,369,658	\$ 16,085,736	\$ 36,496,653	\$ 37,072,810	\$ 85,531,568	\$ 52,063,391	\$ 31,324,633	\$ (10,785,979)	\$ 1,703,519,378	
Liabilities and Net Assets (Deficit)																		
Current Liabilities:																		
Accounts payable and accrued expenses	\$ 18,103,762	\$ 2,243,035	\$ 3,294,577	\$ 116,187	\$ 22,609,912	\$ 285,190	\$ 85,286	\$ 81,002	\$ 1,046,982	\$ 140,573	\$ 2,984,439	\$ 616,498	\$ 9,064,979	\$ 838,212	\$ 292,722	\$ (3,949,270)	\$ 57,854,086	
Interest payable	6,799,434	92,652	7,297,011	74,755	3,845	366,617	-	1,124,133	63,945	520,008	92,145	1,706,412	241,682	914,432	-	-	26,033,471	
Bonds and notes payable	28,950,434	210,000	606,517	65,000	-	250,000	175,000	310,000	6,064,760	210,000	245,000	675,000	3,285,000	180,000	722,983	-	41,949,694	
Capital lease obligations	-	-	-	71,005	245,247	-	-	-	-	-	-	-	-	-	-	-	316,252	
Advances from Calvert County	-	-	-	582,019	-	-	-	-	-	-	-	-	-	-	-	-	582,019	
Advance deposits	-	-	1,601,121	-	-	-	-	-	189,098	-	-	-	-	-	-	-	1,790,219	
Related party payable	-	-	-	57,492	-	-	-	-	613,944	-	-	-	-	-	-	-	671,436	
Sales tax payable	-	-	381,148	-	-	-	-	-	460,062	-	-	-	-	-	-	-	841,210	
Accrued ground rent	-	-	3,537,395	-	-	-	-	-	2,587,500	56,743	-	-	-	-	2,748,921	-	8,930,559	
Tenant security deposits payable	-	-	-	-	-	91,400	108,409	232,095	37,137	119,080	225,640	-	316,198	210,311	-	-	1,340,270	
Deferred management and service fees payable	-	-	6,875,291	-	-	-	-	-	1,293,750	-	-	-	-	-	-	-	8,169,041	
Deferred revenue	-	66,279	-	95,377	-	-	-	117,256	-	36,712	-	37,207	-	-	411,417	-	764,248	
Total Current Liabilities	53,853,630	2,611,966	23,593,060	1,061,835	22,859,004	993,207	368,695	1,864,486	18,992,496	545,110	3,868,527	1,646,490	14,056,391	1,576,092	5,300,786	(3,949,270)	149,242,505	
Noncurrent Liabilities:																		
Bonds and notes payable	1,082,794,315	20,735,750	172,575,051	4,152,747	-	17,071,745	3,480,000	37,303,792	32,610,077	15,625,618	34,110,321	36,185,000	67,474,285	51,222,825	30,130,559	(6,000,000)	1,599,472,085	
Capital lease obligations	-	-	-	27,729	748,582	-	-	-	-	-	-	-	-	-	-	-	776,311	
Deferred revenue	666,807	-	-	-	-	-	-	-	-	-	-	-	991,287	-	-	-	1,658,094	
Deferred ground rent	-	-	-	-	-	-	-	-	4,662,500	-	-	-	-	-	-	-	4,662,500	
Total Noncurrent Liabilities	1,083,461,122	20,735,750	172,575,051	4,180,476	748,582	17,071,745	3,480,000	37,303,792	37,272,577	15,625,618	34,110,321	36,185,000	68,465,572	51,222,825	30,130,559	(6,000,000)	1,606,568,990	
Total Liabilities	1,137,314,752	23,347,716	196,168,111	5,242,311	23,607,586	18,064,952	3,848,695	39,168,278	56,265,073	16,170,728	37,978,848	37,831,490	82,521,963	52,798,917	35,431,345	(9,949,270)	1,755,811,495	
Commitments and Contingencies																		
Net Assets (Deficit):																		
Invested in capital assets, net of related debt	(984,967,405)	(2,429,937)	(30,147,505)	(118,519)	18,165,672	(2,715,234)	4,401,221	(6,046,156)	(1,179,280)	(2,491,293)	(4,306,416)	(7,015,692)	(13,337,087)	(6,847,567)	(4,372,022)	-	(1,043,407,220)	
Restricted under trust indentures	50,485,695	2,360,345	-	-	-	1,413,532	1,279,210	3,670,521	-	2,406,301	2,824,221	6,257,012	16,346,692	6,112,041	265,310	-	93,420,880	
Unrestricted net assets (deficit)	950,942,696	-	(8,594,425)	(513,147)	(21,588,057)	-	-	-	(21,716,135)	-	-	-	-	-	-	(836,709)	897,694,223	
Total Net Assets (Deficit)	16,460,986	(69,592)	(38,741,930)	(631,666)	(3,422,385)	(1,301,702)	5,680,431	(2,375,635)	(22,895,415)	(84,992)	(1,482,195)	(758,680)	3,009,605	(735,526)	(4,106,712)	(836,709)	(52,292,117)	
Total Liabilities and Net Assets (Deficit)	\$ 1,153,775,738	\$ 23,278,124	\$ 157,426,181	\$ 4,610,645	\$ 20,185,201	\$ 16,763,250	\$ 9,529,126	\$ 36,792,643	\$ 33,369,658	\$ 16,085,736	\$ 36,496,653	\$ 37,072,810	\$ 85,531,568	\$ 52,063,391	\$ 31,324,633	\$ (10,785,979)	\$ 1,703,519,378	

Statements of Revenues, Expenses and Changes in Net Assets (Deficit)
Year Ended June 30, 2006

	MEDCO, exclusive of operating facilities	Operating Facilities															Elimination	Total
		Bowie	CBCC	Chesapeake Hills	Compass Pointe	Frostburg	MTDC	Morgan State	Rocky Gap	Salisbury	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village			
Operating Revenues:																		
Operating facilities	\$ -	\$ 2,767,281	\$ 42,620,324	\$ 752,099	\$ -	\$ 2,174,438	\$ 1,299,882	\$ 4,044,325	\$ 10,746,534	\$ 1,664,392	\$ 2,782,834	\$ 4,388,236	\$ 14,344,420	\$ 9,270,089	\$ 4,633,020	\$ -	\$ 101,487,874	
Other property and equipment rentals	9,624,510	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,624,510	
Consulting and management fees	2,423,422	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,176,148)	1,247,274	
Total Operating Revenues	12,047,932	2,767,281	42,620,324	752,099	-	2,174,438	1,299,882	4,044,325	10,746,534	1,664,392	2,782,834	4,388,236	14,344,420	9,270,089	4,633,020	(1,176,148)	112,359,658	
Operating Expenses:																		
Operating facilities	-	2,291,604	33,203,770	834,915	-	892,780	877,375	2,262,690	10,909,632	738,649	1,603,769	1,573,396	6,866,709	5,704,352	2,676,145	(1,176,148)	69,259,638	
Rent	963,868	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	963,868	
Compensation and benefits	985,812	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	985,812	
Administrative and general	920,967	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	920,967	
Depreciation and amortization	3,502,957	959,336	6,928,770	119,072	-	569,333	271,239	1,391,818	994,677	664,880	1,469,157	1,839,093	3,946,462	2,193,351	1,061,280	(24,020)	25,887,405	
Total Operating Expenses	6,373,604	3,250,940	40,132,540	953,987	-	1,462,113	1,148,614	3,654,508	11,904,309	1,403,529	3,072,926	3,412,489	10,813,171	7,897,703	3,737,425	(1,200,168)	98,017,690	
Operating Income (Loss)	5,674,328	(483,659)	2,487,784	(201,888)	-	712,325	151,268	389,817	(1,157,775)	260,863	(290,092)	975,747	3,531,249	1,372,386	895,595	24,020	14,341,968	
Nonoperating Revenues and Expenses:																		
Interest income	38,147,516	99,066	1,015,681	17,626	-	86,003	66,323	205,542	23,381	106,569	177,832	285,854	971,230	598,650	211,386	-	42,012,659	
Interest expense	(46,189,830)	(1,131,281)	(13,330,556)	(395,788)	-	(1,076,920)	(297,757)	(2,296,338)	(2,838,814)	(790,598)	(1,949,737)	(1,779,973)	(3,320,341)	(3,741,139)	(2,099,165)	-	(81,238,237)	
Unrealized loss on investment securities	-	-	(169,138)	-	-	-	-	-	-	-	-	-	-	-	-	-	(169,138)	
Gain (loss) on sale of assets	211,748	-	(64,308)	(52,264)	3,422,385	-	-	-	-	-	-	-	-	-	-	-	3,517,561	
Gain (loss) on early extinguishment of debt	815,632	-	-	-	-	-	-	-	-	-	-	(856,731)	-	(93,917)	-	-	(135,016)	
Operating grants from government agencies	-	-	-	-	-	-	253,710	-	-	-	-	-	-	-	-	-	253,710	
Net Nonoperating Revenues and Expenses	(7,014,934)	(1,032,215)	(12,548,321)	(430,426)	3,422,385	(990,917)	22,276	(2,090,796)	(2,815,433)	(684,029)	(1,771,905)	(2,350,850)	(2,349,111)	(3,236,406)	(1,887,779)	-	(35,758,461)	
Increase (Decrease) in Net Assets	(1,340,606)	(1,515,874)	(10,060,537)	(632,314)	3,422,385	(278,592)	173,544	(1,700,979)	(3,973,208)	(423,166)	(2,061,997)	(1,375,103)	1,182,138	(1,864,020)	(992,184)	24,020	(21,416,493)	
Net Assets (Deficit), beginning of year	16,460,986	(69,592)	(38,741,930)	(631,666)	(3,422,385)	(1,301,702)	5,680,431	(2,375,635)	(22,895,415)	(84,992)	(1,482,195)	(758,680)	3,009,605	(735,526)	(4,106,712)	(836,709)	(52,292,117)	
Net Assets (Deficit), end of yea	\$ 15,120,380	\$ (1,585,466)	\$ (48,802,467)	\$ (1,263,980)	\$ -	\$ (1,580,294)	\$ 5,853,975	\$ (4,076,614)	\$ (26,868,623)	\$ (508,158)	\$ (3,544,192)	\$ (2,133,783)	\$ 4,191,743	\$ (2,599,546)	\$ (5,098,896)	\$ (812,689)	\$ (73,708,610)	

Statements of Revenues, Expenses and Changes in Net Assets (Deficit)
Year Ended June 30, 2005

	MEDCO, exclusive of operating facilities	Operating Facilities															Elimination	Total
		Bowie	CBCC	Chesapeake Hills	Compass Pointe	Frostburg	MTDC	Morgan State	Rocky Gap	Salisbury	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village			
Operating Revenues:																		
Operating facilities	\$ -	\$ 2,548,048	\$ 39,751,060	\$ 668,456	\$ 2,011,920	\$ 1,786,928	\$ 1,343,222	\$ 4,418,283	\$ 9,572,614	\$ 1,593,863	\$ 2,245,420	\$ 3,696,910	\$ 13,096,177	\$ 5,209,972	\$ 4,443,571	\$ -	\$ 92,386,444	
Other property and equipment rentals	11,482,623	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,482,623	
Consulting and management fees	2,363,862	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(993,398)	1,370,464	
Total Operating Revenues	13,846,485	2,548,048	39,751,060	668,456	2,011,920	1,786,928	1,343,222	4,418,283	9,572,614	1,593,863	2,245,420	3,696,910	13,096,177	5,209,972	4,443,571	(993,398)	105,239,531	
Operating Expenses:																		
Operating facilities	-	967,829	30,040,603	745,260	1,964,280	978,874	895,142	1,827,939	10,159,892	525,831	1,100,727	1,772,248	5,605,520	2,016,431	2,658,714	(944,993)	60,314,297	
Rent	1,389,604	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,389,604	
Compensation and benefits	843,590	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	843,590	
Administrative and general	407,733	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	407,733	
Depreciation and amortization	4,576,931	800,411	6,817,288	105,741	765,534	569,349	250,366	1,391,792	882,583	553,942	1,217,567	1,632,091	3,850,658	1,396,240	1,060,919	(24,019)	25,847,393	
Total Operating Expenses	7,217,858	1,768,240	36,857,891	851,001	2,729,814	1,548,223	1,145,508	3,219,731	11,042,475	1,079,773	2,318,294	3,404,339	9,456,178	3,412,671	3,719,633	(969,012)	88,802,617	
Operating Income (Loss)	6,628,627	779,808	2,893,169	(182,545)	(717,894)	238,705	197,714	1,198,552	(1,469,861)	514,090	(72,874)	292,571	3,639,999	1,797,301	723,938	(24,386)	16,436,914	
Nonoperating Revenues and Expenses:																		
Interest income	22,152,711	102,660	680,799	13,558	104,964	76,486	36,313	198,147	6,131	66,150	221,215	217,303	658,908	255,330	70,440	-	24,861,115	
Interest expense	(28,982,710)	(952,060)	(12,978,314)	(357,614)	(1,596,915)	(1,085,910)	(308,843)	(2,344,542)	(2,853,029)	(665,232)	(1,630,536)	(1,401,257)	(3,484,591)	(2,592,587)	(2,159,362)	-	(63,393,502)	
Unrealized gain on investment securities	-	-	1,509,500	-	-	-	-	-	-	-	-	-	-	-	-	-	1,509,500	
Loss on sale of assets	(8,244,678)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,244,678)	
Loss on early extinguishment of debt	-	-	-	-	(525,269)	-	-	-	-	-	-	-	-	-	-	-	(525,269)	
Operating grants from government agencies	-	-	-	-	-	-	256,649	-	-	-	-	-	-	-	-	-	256,649	
Net Nonoperating Expenses	(15,074,677)	(849,400)	(10,788,015)	(344,056)	(2,017,220)	(1,009,424)	(15,881)	(2,146,395)	(2,846,898)	(599,082)	(1,409,321)	(1,183,954)	(2,825,683)	(2,337,257)	(2,088,922)	-	(45,536,185)	
Increase (Decrease) in Net Assets	(8,446,050)	(69,592)	(7,894,846)	(526,601)	(2,735,114)	(770,719)	181,833	(947,843)	(4,316,759)	(84,992)	(1,482,195)	(891,383)	814,316	(539,956)	(1,364,984)	(24,386)	(29,099,271)	
Net Assets (Deficit), beginning of year	24,907,036	-	(30,847,084)	(105,065)	(687,271)	(530,983)	5,498,598	(1,427,792)	(18,578,656)	-	-	132,703	2,195,289	(195,570)	(2,741,728)	(812,323)	(23,192,846)	
Net Assets (Deficit), end of year	\$ 16,460,986	\$ (69,592)	\$ (38,741,930)	\$ (631,666)	\$ (3,422,385)	\$ (1,301,702)	\$ 5,680,431	\$ (2,375,635)	\$ (22,895,415)	\$ (84,992)	\$ (1,482,195)	\$ (758,680)	\$ 3,009,605	\$ (735,526)	\$ (4,106,712)	\$ (836,709)	\$ (52,292,117)	

Statements of Cash Flows
Year Ended June 30, 2006

	MEDCO, exclusive of operating facilities		Operating Facilities															Elimination	Total
	Bowie	CHCC	Chesapeake Hills	Compass Pointe	Frostburg	MTDC	Morgan State	Rocky Gap	Salisbury	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village					
Cash Flows from Operating Activities:																			
Cash received from property and equipment rentals	\$ 8,161,397	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,161,397		
Cash received from consulting and management fees	2,986,202	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,986,202		
Cash received from guests	-	-	42,548,311	-	-	-	-	-	11,063,899	-	-	-	-	9,518,799	-	-	63,131,009		
Cash received from fees, memberships and sales	-	-	-	752,099	-	-	-	-	-	-	-	-	-	-	-	-	752,099		
Cash received from licensees	-	-	-	-	-	-	1,115,482	-	-	-	-	-	-	-	-	-	1,115,482		
Cash received from customer charges	-	-	-	-	-	-	-	-	-	-	-	12,071,035	-	-	-	-	12,071,035		
Cash received from tenants	-	2,437,176	-	-	-	2,234,337	-	3,657,682	-	1,727,963	2,730,849	4,151,620	-	-	4,641,087	-	21,580,714		
Cash paid for operating expenses	(10,183,088)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,183,088)		
Cash paid for expenses of operating facilities	-	(1,683,972)	(28,747,334)	(689,474)	-	(1,010,953)	(885,127)	(1,749,765)	(9,600,761)	(616,430)	(1,255,016)	(1,694,321)	(5,578,844)	(4,363,325)	(1,348,097)	-	(59,223,419)		
Net Cash Provided by Operating Activities	964,511	753,204	13,800,977	62,625	-	1,223,384	230,355	1,907,917	1,463,138	1,111,533	1,475,833	2,457,299	6,492,191	5,155,474	3,292,990	-	40,391,431		
Cash Flows from Noncapital Financing Activities:																			
Operating grants from Montgomery County, Maryland and Maryland Technology Development Corporation	-	-	-	-	-	-	253,710	-	-	-	-	-	-	-	-	-	253,710		
Proceeds from (repayment of) cash overdraft	-	-	967,497	-	-	20,350	-	-	-	-	-	-	-	-	-	-	987,847		
Advances from Calvert County, Maryland	-	-	-	352,112	-	-	-	-	-	-	-	-	-	-	-	-	352,112		
Principal payments on bonds and notes payable	-	-	-	-	-	-	-	-	(450,000)	-	-	-	-	-	-	-	(450,000)		
Interest payments on bonds and notes payable	-	-	(865,174)	-	-	-	-	-	(95,134)	-	-	-	-	-	-	-	(960,308)		
Net Cash Provided by (Used in) Noncapital Financing Activities	-	-	102,323	352,112	-	20,350	253,710	-	(545,134)	-	-	-	-	-	-	-	183,361		
Cash Flows from Capital and Related Financing Activities:																			
Construction, development, and equipment expenditures	(3,092,818)	(1,869,685)	(851,036)	(442,645)	-	-	95,315	-	(100,441)	(4,506)	(2,368,664)	-	(3,301,062)	-	-	-	(11,935,542)		
Proceeds from sale of capital assets	-	-	-	-	17,403,169	-	-	-	-	-	-	-	-	-	-	-	17,403,169		
Payment to Anne Arundel County	-	-	-	-	(17,600,000)	-	-	-	-	-	-	-	-	-	-	-	(17,600,000)		
Proceeds from bonds and notes payable	277,653,035	-	-	474,789	-	-	-	-	-	-	-	32,707,978	-	138,760,929	-	-	449,596,731		
Net funding of restricted cash	-	-	70,894	-	-	-	-	-	-	-	-	-	-	-	-	-	70,894		
Deferred financing costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Interest paid	(46,563,398)	(1,111,818)	(10,006,717)	(318,416)	-	(998,299)	(285,350)	(2,222,277)	-	(767,344)	(1,874,794)	(1,255,715)	(3,330,699)	(4,092,989)	(2,038,802)	-	(74,866,618)		
Principal payments on capital lease obligations	-	-	-	(82,172)	-	-	-	-	-	-	-	-	-	-	-	-	(82,172)		
Principal payments on bonds and notes payable	(130,489,742)	(210,000)	-	(65,000)	-	(250,000)	(175,000)	(310,000)	-	(210,000)	(245,000)	(36,860,000)	(3,285,000)	(133,347,825)	(722,982)	-	(306,170,549)		
Net Cash Provided by (Used in) Capital and Related Financing Activities	97,507,077	(3,191,503)	(10,786,859)	(433,444)	(196,831)	(1,248,299)	(365,035)	(2,532,277)	(100,441)	(981,850)	(4,488,458)	(6,775,979)	(9,916,761)	(2,291,663)	(2,761,784)	-	51,435,893		
Cash Flows from Investing Activities																			
Principal payments on direct financing leases	9,582,008	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,582,008		
Loan originations	(298,192,247)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(298,192,247)		
Principal payments on loans receivable	119,397,879	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	119,397,879		
Net (purchases) sales of deposits with bond trustee	33,381,034	2,205,837	(4,135,711)	38,549	-	(121,970)	(217,563)	479,297	172,255	(237,763)	2,757,342	3,979,174	2,448,074	(1,649,622)	(449,104)	-	38,649,829		
Net (purchases) sales of investments	(65,182)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(65,182)		
Interest received	40,458,338	104,297	979,341	17,626	-	85,212	61,023	203,306	23,381	103,751	185,007	294,771	976,496	479,298	210,836	-	44,182,683		
Purchase of acquired projects	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,681,901)	-	-	(1,681,901)		
Net Cash (Used in) Provided by Investing Activities	(95,438,170)	2,310,134	(3,156,370)	56,175	-	(36,758)	(156,540)	682,603	195,636	(134,012)	2,942,349	4,273,945	3,424,570	(2,852,225)	(238,268)	-	(88,126,931)		
Net Increase (Decrease) in Cash and Cash Equivalents	3,033,418	(128,165)	(39,929)	37,468	(196,831)	(41,323)	(37,510)	58,243	1,013,199	(4,329)	(70,276)	(44,735)	-	11,586	292,938	-	3,883,754		
Cash and Cash Equivalents, beginning of year	11,238,191	283,454	114,929	30,133	196,831	41,323	161,758	105,672	188,463	7,187	133,724	924,531	-	1,039,551	253,408	-	14,719,155		
Cash and Cash Equivalents, end of year	\$ 14,271,609	\$ 155,289	\$ 75,000	\$ 67,601	\$ -	\$ -	\$ 124,248	\$ 163,915	\$ 1,201,662	\$ 2,858	\$ 63,448	\$ 879,796	\$ -	\$ 1,051,137	\$ 546,346	\$ -	\$ 18,602,909		
Reconciliation of operating income (loss) to net cash provided by operating activities:																			
Operating Income (Loss)	\$ 5,674,328	\$ (483,659)	\$ 2,487,784	\$ (201,888)	\$ -	\$ 712,325	\$ 151,268	\$ 389,817	\$ (1,157,775)	\$ 260,863	\$ (290,092)	\$ 975,747	\$ 3,531,249	\$ 1,372,386	\$ 895,595	\$ 24,020	\$ 14,341,968		
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:																			
Depreciation	3,502,957	959,336	6,928,770	119,072	-	569,333	271,239	1,391,818	994,677	664,880	1,469,157	1,839,093	3,946,462	2,193,351	1,061,280	(24,020)	25,887,405		
Provision for doubtful accounts	-	380,946	-	-	-	(52,305)	-	244,625	-	2,420	35,630	68,662	-	93,538	15,043	-	788,559		
Changes in operating assets and liabilities:																			
Restricted cash, tenant security deposits	-	-	-	-	-	(13,726)	-	66,171	-	54,296	(56,580)	(83,984)	-	(255,895)	(38,254)	-	(327,972)		
Inventory	-	-	(45,357)	3,877	-	-	-	-	8,047	-	-	-	-	-	-	-	(33,433)		
Accounts receivable	-	(412,240)	(72,013)	-	-	87,672	(184,400)	(343,820)	96,711	(12,841)	(26,732)	(59,510)	(2,469,680)	155,172	(6,805)	-	(3,248,486)		
Rent and other receivables	(1,463,113)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,463,113)		
Related party receivable	701,875	235,461	-	-	-	-	-	-	-	1,404	10,806	12,305	-	-	-	-	961,851		
Prepaid expenses and other current assets	(12,427)	14,487	19,340	(8,088)	-	(8,186)	-	(3,125)	1,012	(16,205)	(4,679)	70,070	(158,624)	194,493	(7,115)	-	80,953		
Accounts payable and other accrued expenses	(8,382,682)	111,311	4,340,533	(10,160)	-	(57,682)	(7,752)	271,424	(106,906)	31,046	342,626	(271,962)	1,446,489	(100,444)	172,948	-	(2,221,211)		
Advance deposits	-	-	135,449	-	-	-	-	-	220,654	-	-	-	-	-	-	-	356,103		
Related party payable	1,082,668	-	-	193,141	-	-	-	-	5,187	-	-	-	-	-	-	-	1,280,996		
Sales tax payable	-	-	6,471	-	-	-	-	-	120,281	-	-	-	-	-	-	-	126,752		
Accrued ground rent	-	-	-	-	-	-	-	-	1,000,000	103,554	-	-	-	1,455,375	1,103,136	-	3,662,065		
Tenant security deposits payable	-	-	-	-	-	(14,047)	-	(55,411)	-	(36,842)	(4,303)	(225,640)	-	47,498	44,036	-	(244,709)		
Deferred management and service fees payable	-	-	-	-	-	-	-	-	281,250	-	-	-	-	-	-	-	281,250		
Deferred revenue	(139,095)	(52,438)	-	(33,329)	-	-	-	(53,582)	-	58,958	-	132,518	196,295	-	53,126	-	162,453		
Net cash provided by operating activities	\$ 964,511	\$ 753,204	\$ 13,800,977	\$ 62,625	\$ -	\$ 1,223,384	\$ 230,355	\$ 1,907,917	\$ 1,463,138	\$ 1,111,533	\$ 1,475,833	\$ 2,457,299	\$ 6,492,191	\$ 5,155,474	\$ 3,292,990	\$ -	\$ 40,391,431		
Schedule of noncash capital and related financing activities:																			
Capital assets purchased through capital leases	\$ -	\$ -	\$ -	\$ 95,537	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 95,537		
Amortization of deferred financing costs	283,566	15,358	-	-	-	14,667	-	31,580	-	13,080	18,590	14,805	158,501	45,329	68,407	-	663,883		
Amortization of issue premium on bonds	(466,520)	-	-	-	-	-	-	-	-	-	-	(956,777)	86,734	(88,965)	-	-	(1,425,528)		
Amortization of issue discount on bonds	834	4,630	-	10,615	-	12,505	-	24,525	86,739	10,699	19,635	163,798	-	4,464	10,761	-	349,205		
Total Noncash capital and related financing activities	\$ (182,120)	\$ 19,988	\$ -	\$ 106,152	\$ -	\$ 27,172	\$ -	\$ 56,105	\$ 86,739	\$ 23,779	\$ 38,225	\$ (778,174)	\$ 245,235	\$ (39,172)	\$ 79,168	\$ -	\$ (316,903)		

Statements of Cash Flows
Year Ended June 30, 2005

	MEDCO, exclusive of operating facilities	Operating Facilities														Elimination	Total
		Bowie	CBCC	Chesapeake Hills	Compass Pointe	Frostburg	MTDC	Morgan State	Rocky Gap	Salisbury	UMAB	UMBC	UMCP Energy	UMCP Housing	University Village		
Cash Flows from Operating Activities:																	
Cash received from property and equipment rentals	\$ 13,926,649	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,926,649
Cash received from consulting and management fees	1,544,153	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,544,153
Cash received from guests	-	-	40,463,889	-	-	-	-	-	9,269,495	-	-	-	-	-	-	-	49,733,384
Cash received from fees, memberships and sales	-	-	-	641,935	2,498,856	-	-	-	-	-	-	-	-	-	-	-	3,140,791
Cash received from licenses	-	-	-	-	-	-	1,337,728	-	-	-	-	-	-	-	-	-	1,337,728
Cash received from customer charges	-	-	-	-	-	-	-	-	-	-	-	-	14,769,208	-	-	-	14,769,208
Cash received from tenants	-	2,517,786	-	-	-	1,623,995	-	4,312,943	-	1,559,774	2,218,454	3,587,625	-	5,139,779	4,577,281	-	25,537,637
Cash paid for operating expenses	(25,019,030)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(25,019,030)
Cash paid for expenses of operating facilities	-	(862,645)	(26,430,987)	(672,386)	(1,514,960)	(682,482)	(869,888)	(1,815,636)	(8,716,755)	(347,156)	(800,109)	(1,558,211)	(6,080,948)	(1,592,620)	(1,619,538)	-	(53,564,321)
Net Cash (Used in) Provided by Operating Activities	(9,548,228)	1,655,141	14,032,902	(30,451)	983,896	941,513	467,840	2,497,307	552,740	1,212,618	1,418,345	2,029,414	8,688,260	3,547,159	2,957,743	-	31,406,199
Cash Flows from Noncapital Financing Activities:																	
Operating grants from Montgomery County, Maryland and Maryland Technology Development Corporation	-	-	-	-	-	-	256,649	-	-	-	-	-	-	-	-	-	256,649
Proceeds from issuance of note payable	-	-	-	-	-	-	-	-	450,000	-	-	-	-	-	-	-	450,000
Proceeds from (repayment of) cash overdraft	-	-	(334,546)	-	-	-	-	-	-	-	-	-	-	-	-	-	(334,546)
Advances from Calvert County, Maryland	-	-	-	363,607	-	-	-	-	-	-	-	-	-	-	-	-	363,607
Advances from Anne Arundel County, Maryland	-	-	-	-	1,123,900	-	-	-	-	-	-	-	-	-	-	-	1,123,900
Principal payments on bonds and notes payable	-	-	-	-	(300,000)	-	-	-	(625,000)	-	-	-	-	-	-	-	(925,000)
Interest payments on bonds and notes payable	-	-	(685,723)	-	-	-	-	-	(143,410)	-	-	-	-	-	-	-	(829,133)
Net Cash (Used in) Provided by Noncapital Financing Activities	-	-	(1,020,269)	363,607	823,900	-	256,649	-	(318,410)	-	-	-	-	-	-	-	105,477
Cash Flows from Capital and Related Financing Activities:																	
Construction, development, and equipment expenditures	(99,204,129)	(6,199,142)	(3,187,062)	(342,747)	(1,163,414)	(2,167)	(21,220)	(680,612)	(1,841,952)	(1,974,507)	(3,982,126)	(1,517,551)	(1,464,727)	(11,758,518)	(26,147)	-	(133,366,021)
Proceeds from sale of capital assets	17,435,023	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,435,023
Proceeds from bonds and notes payable	120,563,579	-	-	342,747	-	-	-	-	-	-	-	-	-	-	-	-	120,906,326
Net funding of restricted cash	-	-	(1,072,049)	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,072,049)
Deferred financing costs	-	-	(39,500)	-	-	-	-	-	-	-	-	-	-	-	-	-	(39,500)
Interest paid	(27,443,547)	(933,060)	(9,785,783)	(326,324)	(1,501,292)	(1,006,886)	(297,313)	(2,385,385)	-	(642,116)	(1,564,881)	(1,311,151)	(3,491,076)	(2,593,224)	(2,099,558)	-	(55,381,596)
Principal payments on capital lease obligations	-	-	-	(68,878)	(222,953)	-	-	-	-	-	-	-	-	-	-	-	(291,831)
Principal payments on bonds and notes payable	(59,306,230)	(395,000)	-	(65,000)	-	(240,000)	(165,000)	(707,000)	-	(265,000)	-	(640,000)	(3,130,000)	(895,000)	(707,982)	-	(66,516,212)
Net Cash (Used in) Capital and Related Financing Activities	(47,955,304)	(7,527,202)	(14,084,394)	(460,202)	(2,887,659)	(1,249,053)	(483,533)	(3,772,997)	(1,841,952)	(2,881,623)	(5,547,007)	(3,468,702)	(8,085,803)	(15,246,742)	(2,833,687)	-	(118,325,860)
Cash Flows from Investing Activities																	
Principal payments on direct financing leases	2,349,413	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,349,413
Loan originations	(120,563,579)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(120,563,579)
Principal payments on loans receivable	31,789,901	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31,789,901
Net sales (purchases) of deposits with bond trustee	127,130,185	6,063,612	477,539	34,391	2,781,980	102,129	(211,531)	1,077,408	1,663,996	1,601,384	4,063,975	1,449,350	(1,232,453)	12,401,874	(70,555)	-	157,333,284
Increase in deposits held in escrow	-	-	-	-	(1,707,520)	-	-	-	-	-	-	-	-	-	-	-	(1,707,520)
Net (purchases) sales of investments	(1,098,514)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,098,514)
Interest received	20,389,842	91,903	634,151	13,558	111,592	75,849	36,313	194,728	6,131	74,808	198,411	269,885	629,996	231,210	71,916	-	23,030,293
Net Cash Provided by (Used in) Investing Activities	59,997,848	6,155,515	1,111,690	47,949	1,186,052	177,978	(175,218)	1,272,136	1,670,127	1,676,192	4,262,386	1,719,235	(602,457)	12,633,084	1,361	-	91,133,278
Net Increase (Decrease) in Cash and Cash Equivalents	2,493,716	283,454	39,929	(79,097)	106,189	(129,562)	65,738	(3,554)	62,505	7,187	133,724	279,947	-	933,501	125,417	-	4,319,094
Cash and Cash Equivalents, beginning of year	8,744,475	-	75,000	109,230	90,642	170,885	96,020	109,226	125,958	-	-	644,584	-	106,050	127,991	-	10,400,061
Cash and Cash Equivalents, end of year	\$ 11,238,191	\$ 283,454	\$ 114,929	\$ 30,133	\$ 196,831	\$ 41,323	\$ 161,758	\$ 105,672	\$ 188,463	\$ 7,187	\$ 133,724	\$ 924,531	\$ -	\$ 1,039,551	\$ 253,408	\$ -	\$ 14,719,155
Reconciliation of operating income (loss) to net cash provided by operating activities:																	
Operating Income (Loss)	\$ 6,628,627	\$ 779,808	\$ 2,893,169	\$ (182,545)	\$ (717,894)	\$ 238,705	\$ 197,714	\$ 1,198,552	\$ (1,469,861)	\$ 514,090	\$ (72,874)	\$ 292,571	\$ 3,639,999	\$ 1,797,301	\$ 723,938	\$ (24,386)	\$ 16,436,914
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:																	
Depreciation	4,576,931	800,411	6,817,288	105,741	765,534	569,349	250,366	1,391,792	882,583	553,942	1,217,567	1,632,091	3,850,658	1,396,240	1,060,919	(24,019)	25,847,393
Provision for doubtful accounts	-	239,532	-	-	-	82,098	-	4,032	-	421	5,115	116,883	-	-	10,200	-	458,281
Changes in operating assets and liabilities:																	
Restricted cash, tenant security deposits	-	-	-	-	-	(30,047)	-	(4,085)	(19,988)	(54,809)	(106,350)	(111,856)	-	(160,075)	(6,927)	-	(474,149)
Inventory	-	-	(55,563)	(937)	(18,309)	-	-	-	-	-	-	-	-	-	-	-	(94,797)
Accounts receivable	-	(151,073)	-	-	-	(150,486)	(5,494)	(111,090)	98,032	(16,413)	(39,697)	(287,129)	1,662,544	2,300	51,425	-	1,765,748
Rent and other receivables	2,444,026	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,444,026
Related party receivable	(701,875)	(309,185)	-	-	-	-	-	-	-	24,092	85,722	9,335	-	(12,271)	-	-	(904,182)
Prepaid expenses and other current assets	(125,024)	(47,049)	14,507	(3,111)	(63,365)	(21,330)	-	2,081	18,885	960	1,030	(65,970)	-	(96,737)	9,369	-	(375,754)
Accounts payable and other accrued expenses	(21,545,707)	276,418	3,697,932	(40,029)	1,017,930	235,624	25,254	6,190	(389,587)	59,743	208,752	328,402	(475,428)	532,818	155	48,405	(16,013,128)
Advance deposits	-	-	36,421	-	-	-	-	-	5,858	-	-	-	-	-	-	-	42,279
Related party payable	(707,372)	-	-	41,484	-	-	-	-	21,428	-	-	-	-	-	-	-	(644,460)
Sales tax payable	-	-	(83,681)	-	-	-	-	-	-	149,140	-	-	-	-	-	-	65,459
Accrued ground rent	-	-	-	-	-	-	-	-	1,000,000	56,743	-	-	-	-	1,058,824	-	2,115,567
Tenant security deposits payable	-	-	-	-	-	17,600	-	(6,785)	256,250	37,137	119,080	92,440	-	87,583	20,224	-	367,279
Deferred management and service fees payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	256,250
Deferred revenue	(117,834)	66,279	-	48,946	-	-	-	16,620	-	36,712	-	22,647	10,487	-	29,616	-	113,473
Net cash (Used in) Provided by operating activities	\$ (9,548,228)	\$ 1,655,141	\$ 14,032,902	\$ (30,451)	\$ 983,896	\$ 941,513	\$ 467,840	\$ 2,497,307	\$ 552,740	\$ 1,212,618	\$ 1,418,345	\$ 2,029,414	\$ 8,688,260	\$ 3,547,159	\$ 2,957,743	\$ -	\$ 31,406,199
Schedule of noncash capital and related financing activities:																	
Investments in financing leases for buildings and improvements	\$ 249,545,134	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	249,545,134
Capital assets purchased through capital leases	-	-	-	22,915	721,256	-	-	-	-	-	-	-	-	-	-	-	744,171
Bond payable issued to construction contractor	-	-	12,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12,000,000
Obligation to Anne Arundel County related to defeasance of bonds payable to Anne Arundel County	-	-	-	-	17,600,000	-	-	-	-	-	-	-	-	-	-	-	17,600,000
Amortization of deferred financing costs	780,714	15,358	-	-	-	14,667	-	31,580	-	13,080	18,590	30,850	158,500	27,099	68,407	-	1,158,845
Amortization of issue premium on bonds	(444,742)	-	-	-	-	-	-	-	-	-	-	-	86,735	(25,498)	-	-	(383,505)
Amortization of issue discount on bonds	835	4,630	-	10,615	-	12,505	-	24,524	111,929	10,699	19,634	-	-	-	10,761	-	206,132
Total Noncash capital and related financing activities	\$ 249,881,941	\$ 19,988	\$ 12,000,000	\$ 33,530	\$ 18,321,256	\$ 27,172	\$ -	\$ 56,104	\$ 111,929	\$ 23,779	\$ 38,224	\$ 30,850	\$ 245,235	\$ 1,601	\$ 79,168	\$ -	\$ 280,870,777
Schedule of noncash noncapital and related financing activities:																	
Interest on note payable forgiven by Anne Arundel Economic Development Corporation	\$ -	\$ -	\$ -	\$ -	\$ 296,280	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	296,280
Total Noncash capital and related financing activities	\$ -	\$ -	\$ -	\$ -	\$ 296,280	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	296,280

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

7. DEBT AND CAPITAL LEASE OBLIGATIONS

Debt is summarized as follows at June 30,:

	<u>2006</u>	<u>2005</u>
Revenue bonds payable	\$ 1,805,270,289	\$ 1,573,225,810
Notes payable, including \$30,177,252 in 2006 and \$36,533,291 in 2005 to State of Maryland Department of Business and Economic Development (DBED)	<u>67,063,909</u>	<u>68,195,969</u>
Total	<u>\$ 1,872,334,198</u>	<u>\$ 1,641,421,779</u>

The revenue bonds payable are secured by deeds of trust or mortgages on the related facilities and/or assignments of the related notes receivable or leases and, in most cases, irrevocable letters of credit issued by commercial banks. This debt matures at various dates to November 2044 and, at June 30, 2006 and June 30, 2005 bears interest at a weighted average effective rate of 4.80% and 4.59%, respectively, including an average effective rate of 3.63% and 2.58%, respectively, on variable rate bonds of \$735,912,865 and \$592,102,595, respectively. The interest rate on the variable rate bonds changes based primarily on changes in the London Interbank Offered Rate (LIBOR).

The notes payable are generally secured by mortgages on the related properties and/or assignments of the related notes receivable or leases. This debt matures at various dates to November 2032 and, at June 30, 2006 and 2005 bears interest at a weighted average effective rate of 6.40% and 6.53%, respectively.

Total interest on debt and capital leases was \$81,442,129 in 2006 and \$76,139,182 in 2005, of which \$1,078,696 and \$14,242,648, respectively, were capitalized. Interest income from investment of the unexpended proceeds of tax-exempt borrowings used to finance development of properties of \$53,767 in 2006 and \$2,504,298 in 2005 was applied to reduce the cost of the related assets.

All of the bonds and notes payable at June 30, 2006 and 2005 were conduit debt obligations, except for debt related to the operating facilities. Under terms of the related loan agreements, MEDCO has no obligation for the conduit debt obligations beyond the resources provided under the lease or loan with the party on whose behalf the debt was issued.

Debt related to the operating facilities was \$613,426,156 at June 30, 2006 and \$529,677,030 at June 30, 2005. Under terms of the related loan agreements, holders of the operating facilities debt have no recourse to other assets of MEDCO in the event that cash flows from the operation or sales of the facilities are not sufficient to service or pay the debt.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

7. DEBT AND CAPITAL LEASE OBLIGATIONS – cont'd.

Debt related to operating facilities includes revenue bonds payable of \$29,770,000 at June 30, 2006 and 2005 related to Rocky Gap. Rocky Gap has an accumulated deficit of \$26,868,623 and \$22,895,415 at June 30, 2006 and June 30, 2005, respectively, and incurred operating losses in 2006 and 2005. Effective April 3, 2003, MEDCO, DBED and the holders of the Project's Series A bonds entered into an amended and restated trust indenture to provide relief from certain provisions of the trust indenture. The trust indenture was further amended in April and June 2004 and June, September and December 2005 and April and June 2006, to further defer the requirement for deposits to the interest accounts. The trust indenture, as amended, provides, among other things, for the following:

- Forbearance by the Series A bondholders from exercising their remedies under the trust indenture through July 1, 2007;
- Revision to the allocation provisions of the revenues to the various funds and accounts with the bond trustee;
- Suspension of deposits to the interest accounts through December 1, 2006; and
- Effective September 1, 2006, monthly interest payments of \$45,000 to the bondholders and \$5,000 to DBED provided the working capital fund is at least \$500,000.

In April 2002, MEDCO entered into a management agreement with Crestline Hotels & Resorts, Inc. (Crestline) to provide management and administrative services to Rocky Gap. During 2003, Crestline and management of MEDCO reviewed the operations of Rocky Gap and revised the strategies for marketing and delivering services to its guests. As a result, Rocky Gap expanded its meeting and banquet facilities and made certain other improvements during the year ended June 30, 2005. It is expected that this expansion and other improvements will significantly improve Rocky Gap's ability to attract large groups.

Management believes that the changes in the operating and marketing strategies and the expansion of and improvements to the facilities described above will result in significant improvements in the operating results of Rocky Gap; however, there can be no assurance that the operating results of Rocky Gap will improve or that the Series A bondholders will not exercise their default remedies when permitted to do so under the amended and restated trust indenture. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

7. DEBT AND CAPITAL LEASE OBLIGATIONS – cont'd.

Future payments on the bonds and notes payable are due as follows at June 30, 2006:

	Total	Principal	Interest
2007	\$ 136,077,653	\$ 48,716,497	\$ 87,361,156
2008	126,067,679	40,281,645	85,786,034
2009	130,945,760	46,878,340	84,067,420
2010	124,536,198	42,467,111	82,069,087
2011	126,439,784	46,349,038	80,090,746
2012 – 2016	640,801,015	275,892,345	364,908,670
2017 – 2021	626,330,289	342,002,730	284,327,559
2022 – 2026	760,777,971	579,170,305	181,607,666
2027 – 2031	359,910,413	280,372,770	79,537,643
2032 – 2036	158,258,876	143,868,600	14,390,276
2037 – 2041	3,282,489	835,000	2,447,489
2042 – 2045	13,600,000	12,000,000	1,600,000
	<u>3,207,028,127</u>	<u>1,858,834,381</u>	<u>1,348,193,746</u>
Less unamortized discount	(2,805,481)	(2,805,481)	-
Plus unamortized premium	<u>16,305,298</u>	<u>16,305,298</u>	<u>-</u>
	<u><u>\$ 3,220,527,944</u></u>	<u><u>\$ 1,872,334,198</u></u>	<u><u>\$ 1,348,193,746</u></u>

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

7. DEBT AND CAPITAL LEASE OBLIGATIONS – cont'd.

At June 30, 2006, MEDCO was obligated under capital leases for certain furniture and equipment expiring at various dates through 2011. Future minimum payments under the capital leases at June 30, 2006 are summarized as follows:

2007	\$	34,824
2008		33,566
2009		27,274
2010		22,862
2011		7,376
		<u>125,902</u>
Less amounts representing interest		<u>(13,803)</u>
Present value of future minimum capital lease payments	\$	<u><u>112,099</u></u>

The cost of the assets under capital leases was \$249,522 and \$1,559,227 as of June 30, 2006 and 2005, respectively. Accumulated amortization of the leased assets at June 30, 2006 and 2005 was \$118,663 and \$419,250, respectively. Amortization of the assets under capital leases is included in depreciation and amortization.

Activity in debt and capital lease obligations for the years ended June 30, 2006 and 2005 is summarized as follows:

	<u>Bonds payable</u>	<u>Notes payable</u>	<u>Capital lease obligations</u>
Balance June 30, 2004	\$ 1,516,955,670	\$ 76,296,775	\$ 640,223
Additions	156,467,467	792,747	744,171
Reductions	<u>(100,197,327)</u>	<u>(8,893,553)</u>	<u>(291,831)</u>
Balance June 30, 2005	1,573,225,810	68,195,969	1,092,563
Additions	448,456,279	1,214,385	95,537
Reductions	<u>(216,411,800)</u>	<u>(2,346,445)</u>	<u>(1,076,001)</u>
Balance June 30, 2006	<u><u>\$ 1,805,270,289</u></u>	<u><u>\$ 67,063,909</u></u>	<u><u>\$ 112,099</u></u>

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

8. OTHER COMMITMENTS AND CONTINGENCIES

Leases

The land underlying Bowie is leased from the State of Maryland under a noncancelable operating lease expiring on the earlier of July 10, 2043 or the date on which the bonds have been fully repaid. Annual rent is defined as net revenues less certain amounts including, among other things, debt service on the project's bonds payable. Payment of rent is subordinated to all payments required under the bonds payable and related trust indenture. For the years ended June 30, 2006 and June 30, 2005, no ground rent was due.

The land underlying CBCC is leased from Chesapeake Resort, LLC under a noncancelable operating lease expiring on the later of November 30, 2036 or ninety days after the date on which the bonds issued to finance the construction of CBCC are paid in full. Rent under the lease was \$40,000 annually (beginning on December 1, 1999) until commencement of operations of CBCC on August 29, 2002. Thereafter, the annual rent is based on the fair market value of the land, as defined, and is subject to increase each year by the greater of 3% or 50% of the increase in the consumer price index. Payment of the rent is subordinated to all payments required under the project's bonds payable. Unpaid ground rent bears interest at 7%. At June 30, 2006 and June 30, 2005, no payments of ground rents had been made due to the subordination provision. At June 30, 2006 and 2005, accrued ground rent under this lease was approximately \$4,972,000 and \$3,537,000, respectively.

The land underlying Compass Pointe was leased from Anne Arundel County, Maryland under a noncancelable operating lease expiring at the earlier of the repayment of the bonds or December 1, 2051. Rent under the lease was 5% of the excess of the gross revenues for the year over the amount of rent paid to the City of Annapolis by Anne Arundel County in accordance with the terms of their ground lease agreement dated June 13, 1966 related to the Eisenhower Golf Course, a separate component of the Anne Arundel County, Maryland Golf Course System. Payment of the rent was subordinated to all payments required under the project's bonds payable. Due to the subordination provision, no ground lease payments had been made as of June 30, 2005. Ground rent was approximately \$169,000 for year ended June 30, 2005 of which \$33,600 was capitalized. Compass Point was sold to Anne Arundel County on July 1, 2005. Proceeds from the sale were used to pay the accrued ground rent during the year ended June 30, 2006.

The land underlying Frostburg is leased from the State of Maryland under a noncancelable operating lease expiring June 17, 2042. Annual rent is defined as net revenues less certain amounts including, among other things, debt service on the project's bonds payable. Payment of the rent is subordinated to all payments required under the bonds payable. There were no ground rent payments due in the years ended June 30, 2006 and 2005.

The land underlying Morgan State is leased from the State of Maryland under a noncancelable operating lease expiring April 30, 2042. Rent payable under the lease is equal to net revenues, as defined. Payment of the rent is subordinated to all payments required under the project's bonds payable and related trust indenture. No ground rent was due for the years ended June 30, 2006 and 2005.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

8. OTHER COMMITMENTS AND CONTINGENCIES – cont'd.

Leases – cont'd.

The land underlying Rocky Gap is leased from the Department of Natural Resources of the State of Maryland under a noncancelable operating lease expiring April 30, 2031, subject to renewal for three additional five-year terms at the option of MEDCO. Annual rent under the lease was \$200,000 in the initial lease year (which commenced April 1, 1998) and increases \$50,000 each lease year during the term. Payment of the rent is subordinated to all payments required under the project's bonds payable and the related trust indenture. Due to the subordination provision, no ground lease rents have been paid since inception of the lease. At June 30, 2006 and 2005, accrued ground rents under this lease were \$8,250,000 and \$7,250,000, respectively, including the effects of using the straight-line basis to recognize minimum rents (\$5,100,000 and \$4,662,500 and included in other noncurrent liabilities at June 30, 2006 and 2005, respectively).

The land underlying Salisbury is leased from the State of Maryland under a noncancelable operating lease expiring June 1, 2043. Annual rent is defined as net revenues less certain amounts including, among other things, debt service on the project's bonds payable. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. For the years ended June 30, 2006 and 2005, ground rent was \$160,297 and \$56,743, respectively.

The land underlying UMAB is leased from the State of Maryland under a noncancelable operating lease expiring on the earlier of February 12, 2043 or the date on which bonds have been fully repaid. Annual rent is defined as net revenues less certain amounts including, among other things, debt service on the project's bonds payable. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. No ground rent was due for the years ended June 30, 2006 and 2005.

The land underlying UMBC is leased from the State of Maryland under a noncancelable operating lease expiring April 30, 2042. The annual rent under the lease is \$1.

The land, energy conversion facilities and steam, electricity and chilled water delivery systems at UMCP are leased from the University System of Maryland under an operating lease expiring in 2019. Annual rent under the lease is \$100.

The land underlying UMCP Housing is leased from the State of Maryland under a noncancelable operating lease expiring July 31, 2043. Annual rent is defined as net revenues less certain amounts including, among other things, debt service on the project's bonds payable. Payment of the rent is subordinated to all payments required under the bonds payable and related trust indenture. Accrued ground rent due under this lease was \$2,503,138 as of and for the year ended June 30, 2006. No ground rent was due for the year ended June 30, 2005.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

8. OTHER COMMITMENTS AND CONTINGENCIES – cont'd.

Leases – cont'd.

The land underlying University Village is leased from Sheppard Pratt Health System, Inc. under a noncancelable operating lease expiring June 30, 2041. Rent payable under the lease was \$885,500 in the initial lease year (which commenced July 1, 2001), and increases by 3% each lease year thereafter. Payment of the rent is subordinated to all payments required under the project's bonds payable and related trust indenture. Unpaid ground rent through June 30, 2003 bears interest at 12.65% annually beginning 90 days after the end of the related lease year. Ground rent expense was \$1,103,136 and \$1,058,824 for 2006 and 2005, respectively, including interest on unpaid ground rent of \$106,498 and \$91,215, respectively. Accrued ground rent was \$3,852,057 and \$2,748,921 at June 30, 2006 and 2005, respectively, including accrued interest on unpaid ground rent of \$197,713 and \$91,215, respectively.

The land underlying two parking garage facilities is leased from Montgomery County, Maryland under noncancelable operating leases expiring on September 14, 2022 and October 31, 2022. Annual rent under the leases is \$1.

The land underlying the office and research facility relating to the Laboratory for Telecommunications Sciences is leased from the State of Maryland on behalf of the University of Maryland, College Park under a noncancelable operating lease expiring on January 31, 2025. Annual rent under the lease is \$100,000.

Future minimum rent under these leases is due as follows at June 30, 2006:

2007	\$ 17,161,683
2008	3,072,813
2009	3,192,120
2010	3,313,505
2011	3,437,032
2012 – 2016	19,117,628
2017 – 2021	22,566,145
2022 – 2026	26,223,088
2027 – 2031	29,607,143
2032 – 2036	24,932,672
2037 – 2041	14,458,152
2042	1
	<hr/>
	\$ 167,081,982

Minimum rent payable during the year ending June 30, 2007 includes accrued but unpaid rents for prior years of approximately \$14,198,210.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

8. OTHER COMMITMENTS AND CONTINGENCIES – cont'd.

Other Leasing Activities

MEDCO leases office space which is classified as an operating lease and expires on February 2013. Rent under this lease was \$87,446 in 2006 and \$80,627 in 2005 and is included in administrative and general expense. Minimum rents due under this lease at June 30, 2006 are summarized as follows:

2007	\$ 98,874
2008	100,751
2009	102,628
2010	104,505
2011	106,382
Thereafter	181,267
	<u>\$ 694,407</u>

MEDCO leases certain other properties which it in turn has leased to others. These leases expire at various dates through June 2008. Rent revenue under these leases was \$1,333,842 and \$1,751,797 during the years ended June 30, 2006 and 2005, respectively. Rent expense under these leases was \$947,181 and \$1,389,604 during the years ended June 30, 2006 and 2005, respectively. Minimum rents receivable under these leases at June 30, 2006 are summarized as follows:

	<u>Rent Receivable</u>	<u>Rent Payable</u>
2007	792,669	\$ 827,911
2008	812,461	856,888
2009	204,371	-
	<u>\$ 1,809,501</u>	<u>\$ 1,684,799</u>

MEDCO owns certain properties which are leased to tenants under long-term operating leases expiring at various dates to 2019, subject to renewal options in certain cases. The leases generally provide for annual minimum rentals sufficient to pay principal and interest on the debt issued to finance the acquisition of and/or improvements to the related properties. Insurance and maintenance costs are generally the responsibility of the tenants.

MARYLAND ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements June 30, 2006 and 2005

8. OTHER COMMITMENTS AND CONTINGENCIES – cont'd.

Other Leasing Activities

The minimum rents to be received from tenants for properties owned by MEDCO under operating leases in effect at June 30, 2006 are summarized as follows:

2007	\$ 6,227,841
2008	6,159,200
2009	4,430,371
2010	3,617,725
2011	3,623,984
2012 – 2016	18,289,073
2017 – 2019	27,974,890
	<u>\$ 70,323,084</u>

Litigation

Various lawsuits and other claims occur in the normal course of business and are pending against MEDCO. Management, after consultation with legal counsel, is of the opinion that the lawsuits and other claims, when resolved, will not having a material effect on the accompanying financial statements.

9. SUBSEQUENT EVENT

On October 11, 2006, MEDCO issued \$145,950,000 of its Senior Lien Refunding Revenue Bonds (Chesapeake Bay Conference Center Project), Series 2006A and \$18,170,000 of its Senior Lien Refunding Revenue Bonds (Chesapeake Bay Conference Center Project), Series 2006B at rates ranging from 4.95% to 5.25%. Approximately \$143,000,000 of the proceeds were placed in escrow to defease the Senior Lien Revenue Bonds (Chesapeake Bay Conference Center Project) Series 1999A and the Senior Lien Revenue Bonds (Chesapeake Bay Conference Center Project) Series 1999B which bore interest at rates ranging from 7.50% to 7.75%, \$10,000,000 was used to retire notes payable relating to the original furnishings of the project which bore interest at 9.50%, \$6,000,000 was segregated for capital improvements and facilities expansion and the balance was placed into the Senior Lien Debt Service Reserve Fund and Costs of Issuance Subaccount of the Construction Account.

On October 11, 2006, MEDCO also issued \$7,000,000 of its Junior Lien Refunding Revenue Bonds (Chesapeake Bay Conference Center Project), Series 2006C which bear interest at 9.50%. These bonds were exchanged for the \$7,000,000 Junior Lien Revenue Bonds (Chesapeake Bay Conference Center Project) Series 1999C which bore interest at 9.50%.